NOTE

This Microfiche meets the quality requirements of the American National Standard for Microfiche of Documents (ANSI PH5.9-1975). However, because of imperfections in the document from which it was made, it contains images that are illegible or difficult to read. The source document for this microfiche is the best copy that could be obtained prior to filming.

CIS Congressional Information Service, Washington, D.C.

S. HRG. 100-773, PT. 1

DRUGS, LAW ENFORCEMENT AND FOREIGN POLICY

HEARINGS

BEFORE THE

SUBCOMMITTEES ON
TERRORISM, NARCOTICS AND INTERNATIONAL
COMMUNICATIONS

AND

INTERNATIONAL ECONOMIC POLICY, TRADE, OCEANS,
AND ENVIRONMENT

OF THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

MAY 27, JULY 15, AND OCTOBER 30, 1987

PART 1

Printed for the use of the Committee on Foreign Relations

U.S. GOVERNMENT PRINTING OFFICE
86-477 WASHINGTON : 1988

S381-16

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, DC 20402

COMMITTEE ON FOREIGN RELATIONS

CLAIBORNE PELL, Rhode Island, *Chairman*

JOSEPH R. BIDEN, JR., Delaware	JESSE HELMS, North Carolina
PAUL S. SARBANES, Maryland	RICHARD G. LUGAR, Indiana
ALAN CRANSTON, California	NANCY L. KASSEBAUM, Kansas
CHRISTOPHER J. DODD, Connecticut	RUDY BOSCHWITZ, Minnesota
JOHN F. KERRY, Massachusetts	LARRY PRESSLER, South Dakota
PAUL SIMON, Illinois	FRANK H. MURKOWSKI, Alaska
TERRY SANFORD, North Carolina	PAUL S. TRIBLE, JR., Virginia
BROCK ADAMS, Washington	DANIEL J. EVANS, Washington
DANIEL P. MOYNIHAN, New York	MITCH McCONNELL, Kentucky

GERYLD B. CHRISTIANSON, *Staff Director*
JAMES P. LUCIER, *Minority Staff Director*

SUBCOMMITTEE ON TERRORISM, NARCOTICS AND INTERNATIONAL COMMUNICATIONS

JOHN F. KERRY, Massachusetts, *Chairman*

BROCK ADAMS, Washington	MITCH McCONNELL, Kentucky
DANIEL P. MOYNIHAN, New York	FRANK H. MURKOWSKI, Alaska

SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY, TRADE, OCEANS AND ENVIRONMENT

TERRY SANFORD, North Carolina, *Chairman*

PAUL S. SARBANES, Maryland	DANIEL J. EVANS, Washington
CHRISTOPHER J. DODD, Connecticut	RICHARD G. LUGAR, Indiana
JOHN F. KERRY, Massachusetts	FRANK H. MURKOWSKI, Alaska
BROCK ADAMS, Washington	JESSE HELMS, North Carolina

CONTENTS

Page

MAY 27, 1987

Garcia, Luis G. ("Kojak"), Miami, FL 5
Bannister, Gorman, Miami, FL 21

JULY 15, 1987

Morales, Jorge, convicted drug smuggler, Miami, FL, accompanied by Sheldon Yavitz, Esq., and Ron B. Schmidt, Esq., Miami, FL, Counsel to Mr. Morales.. 44

OCTOBER 30, 1987

Garfinkel, Eric, Vice President and General Counsel, Overseas Private Investment Corporation, accompanied by Mildred Osowski, Senior Counsel, Jane Chalmers, Deputy General Counsel, Robert Draggon, Vice President of Finance, Felton Johnston, Vice President of Insurance, Thomas Clegg, Deputy Treasurer, and Robert O'Sullivan, Assistant General Counsel for Claims 103
Crone, William 141
Siple, Douglas, Miami, FL 160
Hood, Louella, Bradenton, FL 160

APPENDIX

Overseas Private Investment Corporation, prepared statement 169
Miscellaneous receipts of John Hull 191
Miscellaneous letters submitted by Douglas Siple 200

DRUGS, LAW ENFORCEMENT AND FOREIGN POLICY: THE BAHAMAS

WEDNESDAY, MAY 27, 1987

U.S. SENATE,
SUBCOMMITTEE ON TERRORISM, NARCOTICS AND
INTERNATIONAL OPERATIONS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met at 10:05 a.m., in room SD–419, Dirksen Senate Office Building, Hon. John F. Kerry (chairman of the subcommittee) presiding.

Present: Senators Kerry, Pell, and McConnell.

Also present: Jack A. Blum, special counsel.

Senator KERRY. The hearing will come to order.

Let me take a moment, if I may, to explain why we are having this hearing and where we intend to be going in the course of these hearings. I think all of us know that the effort to stem the illicit flow of drugs into the United States has become an insurmountable problem.

Law enforcement officials across our country and elsewhere have become increasingly frustrated over the seeming inability to be able to stop the flow of drugs or to deal effectively with what is essentially a war that is being waged against the citizens of this country.

The availability of drugs has every parent in the United States, according to every indicator by which we measure people's fears, deeply concerned that their sons and daughters are going to experiment with cocaine, with marijuana, with heroin, or even with more sophisticated mixtures of drugs.

I think it is fair to say that the Congress has also experienced a frustration in trying to deal with this issue, which is clearly one of the primary concerns of citizens of this country. Last year we passed the Omnibus Antidrug Enforcement Act in order to try to increase our efforts to launch a so-called all-out war against narcotics, but drugs are still coming into this Nation in significant if not ever-increasing amounts.

The purpose of these hearings is to focus on foreign policy and broader international policy implications of the drug problem, as well as obviously to ascertain some of the underlying facts which give us the ability to make judgments about that policy. This subcommittee intends to look at our relationships with countries that are important to the drug industry either because they produce

drugs, are used as a transit point for narcotics trafficking, or have become a haven for drug-connected money-laundering operations.

Among the issues which we want to address in these hearings is not only our own policy but the extent to which our Government ranks the drug problem in the overall scheme of a relationship with other countries. Do we on any occasion overlook a drug law enforcement problem that develops in our relationship with a foreign government in order to protect perceived national or international security or political concerns?

If so, what are the political and national security objectives which take precedence over the responsibility to our citizens to stop the flow of drugs. This subcommittee will also attempt to evaluate the impact of the drug industry on countries where narcotics have become an integral part of their economies. Only by doing that can we make judgments about what our relationship with those countries ought to be.

Are we facing a situation where the economies of some countries are becoming reliant on revenues generated by narcotics trafficking? Are the actions of drug traffickers increasingly destabilizing the institutions of those countries which succumb to the temptation to permit traffickers to operate in them? Is drug money being used to support political parties, incumbent governments, or even revolutionary movements?

Several unique questions arise in the case of the Bahamas. The Drug Enforcement Administration estimates that about 40 percent of the cocaine and much of the marijuana pouring into the United States comes through the Bahamas. The subcommittee will be seeking to determine how our Government has responded to the drug problem in the Bahamas overthe past years, and we will attempt to construct a history of the trafficking through the Bahamas and how in reality we have responded to that problem.

I think, and I say this very clearly, that it is important that this committee look at the facts.

To understand what the policy ought to be, to understand where we are making mistakes, and to understand how Government policies may have been affected, one has to understand what the situation is at this moment and in the past in that particular country, and so we must lay a factual foundation.

In so doing, it is my genuine hope that we will be able to improve relations, not diminish them, and to improve cooperation between our countries so as to minimize this scourge. I hope that will be the final result of these hearings.

If I could make one final comment, it is not by my choice that a witness, nor by my ranking colleague's choice that a witness appears before us hooded. We want these hearings to be open, and we want this policy to be examined openly.

But the witness is under the Federal Witness Protection Program as of very recently. This committee feels a responsibility to adhere to the standards of that program, which require the diminished exposure of a witness in order to effectively relocate him. And so we are adhering to that policy, and that is why the witness appears hooded today.

It is not to say there are not those in the world who know his identity. Obviously they do. Has he appeared publicly before? Yes,

he has. But now he is in the program seeking a new identity and location, and it would be irresponsible of this committee to in any way permit people who have never seen him to see him in this context. That is why we are going along with it.

I turn now to my ranking colleague, Senator McConnell.

Senator MCCONNELL. Thank you, Mr. Chairman.

I share your judgment about the necessity to hood the witness. We are sorry that is necessary but we understand the reason why.

A little over a month ago the Senate struggled with the question of whether the Government of the Bahamas was fully cooperating with the United States or taking adequate steps of its own to stop drug trafficking, production or drug-related money laundering.

My view is shaped by the State Department's International Narcotics Control Strategy Report, which summed up the situation, stating, "The Bahamas continues to be a major transit country for cocaine and marijuana shipments to the United States. In fact, in 1986 as coca production and cocaine demand increased, seizures of cocaine transmitting the Bahamas dropped from the 1985 level of over 10,000 pounds to under 8,000 pounds. Seizures of marijuana dropped from 44.5 tons in 1985 to 5.6 tons in 1986."

This dramatic decline in interdiction of narcotics occurred as we mounted one of the most significant drug enforcement programs in our history, Operation Bahamas, Antigua, Turks, and Caicos, otherwise known as OpAd, pioneered the use of the Department of Defense helicopter assets in our drug war.

Bahamian strike force personnel are stationed at Homestead Air Force Base and flown to suspected narcotics sites along with DEA and Customs officials. We have a radar balloon to track flights, and according to the State Department Bahamian liaison officers assigned to Coast Guard vessels offer, and I quote, "excellent cooperation" in granting permission to board Bahamian vessels.

Clearly the experts have developed a comprehensive program to fight this war on drugs. The question that comes to mind is, Why is it not working more successfully? We have dedicated millions of dollars, tons of equipment, and hundreds of personnel, yet the problem gets worse. Other committees and task forces have devoted time to examining the questions relating to enforcement. I think this committee needs to explore the central issue of whether corruption and the internal policies of the Bahamian Government undermine and defeat our drug enforcement program.

The State Department assures me that the No. 1 issue on our bilateral agenda with the Government of the Bahamas is drug enforcement. However, their narcotics report points out, and I quote again, "Widespread narcotics corruption still exists, as was publicly revealed during the yearlong commission of inquiry which issued its report in December 1984. The government has been slow in effectively addressing recommendations contained in that report and narcotics-related corruption in general. This corruption threatens to undermine the cooperation we now enjoy as well as the very fabric of Bahamian society."

This sentiment was certainly echoed in a recent letter from Assistant Secretary Fox to members of this committee. While Mr. Fox points out that in 1986 laws were passed to increase sentences in the Bahamas for drug-related offenses, his next paragraph notes

that of six prosecutions stemming from the Royal Commission report, none resulted in conviction.

What good does it do to make arrests if there are no convictions? What really concerns me is that I understand that this is a fairly routine problem for our Customs and DEA officials. But routine does not make it right. Nor does it make it acceptable. I hope the witnesses today will be helpful in explaining to us just how extensive the problem of drug-related corruption may be. Were they dealing with a few bad apples at the top or do Bahamian senior officials set the trend for the entire country? Are we talking about a problem that is firmly imbedded in the economic, social, and political structure of the Bahamas such that our narcotics enforcement efforts and goals are ultimately impeded?

I appreciate Mr. Garcia and Mr. Bannister appearing before the committee today to describe the problem that we face. They share a unique understanding of the Bahamian players and their objectives. More importantly, I think these gentlemen have the best sense of just how effective our law enforcement efforts are. I am also interested to hear the administration's response to this definition of the problem and I understand we will be scheduling that for a future date.

John, I want to commend you for initiating this inquiry. I wish we had been able to complete it prior to the Senate's consideration of the resolution disapproving the President's certification, but I think this is good, solid groundwork for preparing for next year, and I look forward to hearing from the witnesses.

Senator KERRY. Thank you very much, Senator. I appreciate your comments, and I am glad to be sharing this hearing with you.

Two quick comments, if I may. One, we will be having further hearings at which policymakers and others who have been involved in this effort will be testifying. Second, I think that it is important to note that we are very well aware that there are other countries with whom there are problems. No one is singling out the Bahamas alone.

This is not meant to indicate that this is the only international problem in narcotics that we have, but we have to begin somewhere, and it is clear from the DEA that the most significant flow of cocaine into this country is through the Bahamas, so we begin where we begin. But we will be looking elsewhere, and we will be equally as interested in the relationships in other countries.

Moreover, and I say this as a former prosecutor, nobody is trying to hide the fact that we have problems in this country. And we do not diminish those by these hearings. We point the finger at ourselves as well as elsewhere. But I think what has become clear is, we need an overall, concerted strategy to deal with this problem if we are going to do anything about it.

I am going to call on Mr. Garcia to make an opening statement.

Before you do, Mr. Garcia, I would ask you to stand and raise your right hand. Do you swear to tell the truth,the whole truth, and nothing but the truth, so help you God?

Mr. GARCIA. I do.

Senator KERRY. Thank you.

Would you begin with your opening statement, please?

STATEMENT OF LUIS G. GARCIA ("KOJAK"), MIAMI, FL

Mr. GARCIA. Mr. Chairman, ladies and gentlemen, my name is Luis G.—stands for Gustavo—Garcia. I was born in Cuba in 1932, came to this country at the age of 4. I was——

Senator KERRY. Would you hold the microphone just a little closer to you—there you go.

Mr. GARCIA. All right.

Senator KERRY. Thank you.

Mr. GARCIA. Is that all right now?

At the age of 4 my mother brought me to this country. I am now a naturalized citizen of the United States, living in Miami, FL. That city has been my home for over 20 years. I have never been convicted of a drug-related offense although I was heavily involved in smuggling drugs into the United States for almost 4 years beginning in early 1979. At that time I supervised an operation which smuggled tons of drugs mainly from Colombia and Jamaica by way of the Bahamas with complete impunity. That was accomplished by paying for protection to the Bahamian authorities from the lowest rank officer to the highest politicians and officers. It is believed that if it was not for this fact my smuggling activities and those of many others like me would not have been so successful.

I retired in early 1983 from drug smuggling and contacted the Drug Enforcement Administration in Miami of my own accord, and shortly thereafter I was involved in a sting operation which resulted in the indictment of two Bahamian politicians and a high-ranking immigration officer from that country. The outcome of that operation was the arrest and conviction of two who were found guilty and sentenced to prison. The other individual remains a fugitive and to the best of my knowledge still remains at large in the Bahamas. Because of my efforts and cooperation in these matters and others, I have immunity from criminal charges.

I have testified in the President's Commission on Organized Crime. I have also testified at the Royal Commission of Inquiry for the Bahamas Government on hearings which were conducted in Miami, FL, at the Bahamian consulate.

I am definitely at this moment an outspoken enemy of drugs, the evil that it brings, the corruption that it brings, even at the risk of my life, which has been threatened several times, in fact, a few months back. It is also a fact that from what one reads in the newspaper, hears on TV and the whole media, and also by my experience in Florida, Miami in particular, things have not been changed for the better. On the contrary, it has never been better in the Bahamas. In my mind and by my experience it is one of the most expensive governments in the world. I should know. I paid my share of it.

Thank you.

Senator KERRY. Mr. Garcia, when did you first begin to become active in drug smuggling in the Bahamas?

Mr. GARCIA. 1979, sir.

Senator KERRY. And how did you first become active?

Mr. GARCIA. By teaming up with a group of people that were in that particular business, and as a drug smuggler or conducting a drug operation I visited the Bahamas with them.

Senator KERRY. Did you meet up with them in the United States?

Mr. GARCIA. Yes, sir.

Senator KERRY. And then went to the Bahamas?

Mr. GARCIA. Yes, sir. To Bimini.

Senator KERRY. Why did you go to the Bahamas?

Mr. GARCIA. To arrange the location and to arrange an airstrip in south Bimini for the airplane to land with drugs so it could be picked up and brought into the States.

Senator KERRY. Was it important to you as a drug smuggler to have a base of operations in the Bahamas?

Mr. GARCIA. I will say that after my first trip in the Bahamas, after that first successful operation if I wouldn't have found it as easy as it is, and still is, I never would have continued.

Senator KERRY. I'm sorry. I didn't understand that. You——

Mr. GARCIA. I never would have continued in doing, you know, being in the drug business, the smuggling business.

Senator KERRY. Now, would it have been possible for you to operate in the Bahamas if you had not paid government officials?

Mr. GARCIA. No, sir. No.

Senator KERRY. And how did you find that out?

Mr. GARCIA. Well, actually, it is not very hard. Believe it or not, they, usually the lowest people at the airport or customs or something, they knew or they had a certain knowledge of what you came there for, and they approach you.

Senator KERRY. And is that how you first got the OK to open up the airstrip?

Mr. GARCIA. My first experience, sir, was when a customs inspector in Bimini just saw a machinegun laying around the boat when we arrived there and he got very upset about it, and he was going to call the police and so forth, and I started talking to him, and I offered him a $100 bill, and he took it, and he says, "Put the machinegun away, and that is the end of it."

Senator KERRY. Now, how did you start making payoffs specifically?

Mr. GARCIA. Exactly that way. Then, you know, from that man on we talked to other people. Everything was arranged at the beginning through an intermediary, a Bahamian civilian.

Senator KERRY. At the time that you were operating there were there other major smuggling groups also operating out of the Bahamas?

Mr. GARCIA. Oh, yes, that airport was as busy as Miami International most of the time, especially at night.

Senator KERRY. And how many other groups would you say there were?

Mr. GARCIA. Oh, at any given moment there would be anywhere between 5 and 10 groups in Bimini.

Senator KERRY. And what year was this?

Mr. GARCIA. Somewhere around the summer of 1979.

Senator KERRY. Did this continue through the full 4 years that you were active in drug smuggling?

Mr. GARCIA. Yes, sir, but not exactly in Bimini, throughout all of the islands.

Senator KERRY. Throughout all the islands?

Mr. GARCIA. Yes, sir

Senator KERRY. And to your knowledge does that continue today?

Mr. GARCIA. Yes, sir, it does. I definitely have knowledge about it.

Senator KERRY. Why were some of the groups more successful than others?

Mr. GARCIA. Well, if I may say, a lot of these people that are involved in these activities have a tendency to use the merchandise that they peddle, and that brings their downfall.

Senator KERRY. Would you explain that a little further?

Mr. GARCIA. In other words, what I am trying to say, sir, is that they do use drugs themselves. They are not pretty well organized, and that is a cause for law enforcement, especially in the United States, to crack down on them. They make mistakes.

Senator KERRY. In 1979, do you recall what the state of drug use was in the Bahamas itself?

Mr. GARCIA. It wasn't used much. Very few low class of people, the same as in the United States would be using it. But the practice of also paying with drugs to Bahamian civilians and officials then came about a couple of years after that.

Senator KERRY. And how would you describe the situation today?

Mr. GARCIA. Well, like I say, it has never been better, especially as of Monday night. I do have information that it is still going on as usual.

Senator KERRY. Do you want to describe to us what happened Monday night?

Mr. GARCIA. Well, one of my former colleagues came over and talked to me. Actually, what I believe he was trying to do was trying to talk me into going back into the business because of my success ratio. And he just happened to go by the Bahamas a couple of weeks ago, and people were saying "Things were rough, have the old man come back."

Senator KERRY. What did he mean by that, "things were rough"?

Mr. GARCIA. Well, I used to pay up to a quarter of a million dollars for having the opportunity to bring in the plane, and transship them to boats, speedboats, and so forth, to bring it to the States.

Senator KERRY. You personally paid up to a quarter of a million dollars to get permission to operate there?

Mr. GARCIA. Yes, sir.

Senator KERRY. And can you describe to us what the various costs were, where the money went?

Mr. GARCIA. Usually let's say, say in an aircraft, a DC-3, that would bring marijuana, somewhere around 5,000, 6000 pounds, up to 8,000 pounds. It all depends on the configuration of the aircraft. It would cost around $130,000 in those days. I understand the cost has gone up now. But it would cost about $130,000, $150,000, and a major part of it would go to the police officials, immigration officials, and customs. The rest of it to civilians that would help in the operation, unloaders and loaders and so forth.

Senator KERRY. Now, did you personally pay the money to each of these people, or did you give it to a go-between who then paid them off?

Mr. GARCIA. At the beginning, the first three or four times we did use a go-between.

Senator KERRY. But then afterward you wouldpay it personally?

Mr. GARCIA. Yes, afterward I had to start paying myself because I found out the guy in between used to pocket some of the money himself.

Senator KERRY. Can you describe the various officials to whom you paid money in order to clear the way for a shipment?

Mr. GARCIA. I would say from a police constable up to the chief of the Bahamian task force, which was on my payroll. That came out.

Senator KERRY. This is the Bahamian drug task force?

Mr. GARCIA. Yes, sir.

Senator KERRY. You paid him?

Mr. GARCIA. I had him on my payroll for $10,000 a month.

Senator KERRY. And you personally paid $10,000 a month to him?

Mr. GARCIA. I paid him—I did meet with him a couple of times, but he was in the Bahamas, I was in Miami, and I had a former policeman who used to work for me from the beginning who quit the force because of the money he was making in the drug business relay the money to him.

Senator KERRY. Did you personally ever pay any politicians?

Mr. GARCIA. Yes, sir. I did pay a former chairman of the PLP, Mr. Andrew Mayner, $50,000 in Miami.

Senator KERRY. And what was that payment for?

Mr. GARCIA. The payment was like the first installment of $150,000 to take me off what they call the stop list or the restricted list, and afterward that was supposedly the beginning of a good relationship where I will operate even more freely than what I was doing at the time.

Senator KERRY. What year was this?

Mr. GARCIA. I believe it was in 1981.

Senator KERRY. You weren't taken off the stop list, though, were you?

Mr. GARCIA. No, sir.

Senator KERRY. Now, what is the most money that you ever paid for one shipment of drugs?

Mr. GARCIA. I paid $250,000 to a Bahamian by the name of Abner Pynder. A quarter of a million dollars for bringing in in November 1982 almost 400 kilos of cocaine.

Senator KERRY. And what year was that?

Mr. GARCIA. November 1982, sir.

Senator KERRY. Now, you say you have specific knowledge today that this same practice is continuing right now.

Mr. GARCIA. Yes, sir.

Senator KERRY. And that knowledge is based upon your contacts within the drug smuggling business?

Mr. GARCIA. Yes, sir.

Senator KERRY. And you have talked with these people recently?

Mr. GARCIA. Yes, sir, as of Monday night.

Senator KERRY. What is the attitude of local residents of the Bahamian islands toward the drug smugglers?

Mr. GARCIA. Well, I can only speak to—in relation to when I was there, but I believe it almost stays the same. It is that, you know, it is a matter of making money. As long as the money stays there and the drugs keep going to the United States, there is no problem with it.

Senator KERRY. Are there some who are very upset about it?

Mr. GARCIA. No, sir, I never found anybody upset about taking money.

Senator KERRY. Do you Know why Cabinet Minister Roker resigned from the PLP? I do not want to know why you think, but do you know why Cabinet Minister Roker resigned?

Mr. GARCIA. I do know that he did not resign, sir. He put it that he retired, which is a form of resigning, I guess.

Senator KERRY. Do you know why?

Mr. GARCIA. He is definitely against drugs and, you know, what is going on.

Senator KERRY. Did you ever have a bribe that you paid returned to you?

Mr. GARCIA. No, sir.

Senator KERRY. What were the circumstances under which you were approached to begin making payments to higher level Bahamian officials?

Mr. GARCIA. Well, I guess it was through my success as a drug smuggler. Word got around that, you know, Kojak will pay his dues, he will not back out on his word, and so forth, and like I say, I started with a constable and a customs officer, and I guess my success followed me, and eventually I got up to the head of the Bahamian task force.

Senator KERRY. Just for the record, you are referred to as "Kojak" in the islands. Is that correct?

Mr. GARCIA. Yes, sir.

Senator KERRY. I don't have to ask you why, do I?

Mr. GARCIA. No. No.

Senator KERRY. I am going to turn—I have more questions, but I am going to turn to my colleague, Senator McConnell, for a round at this point.

Senator MCCONNELL. Thank you, Mr. Chairman.

Did every single transaction require a separate payment, or did your payments give you some kind of blanket protection?

Mr. GARCIA. Well, every single trip actually was arranged, especially at the beginning, way ahead of time, and I will pay a little bit before the trip, and then afterward, after the trip was done I will pay it.

Senator MCCONNELL. So, each separate transaction then required a separate arrangement?

Mr. GARCIA. Right, and specific rates, because it all depends on, you know, what size of an airplane you are bringing in, and how many people you use, and so forth.

Senator MCCONNELL. How many different folks would you have to bribe to complete a transaction?

Mr. GARCIA. It all depends on the size of the law enforcement in that particular island. Now, in Bimini, for instance, there are quite a few customs people so every one of them has to get paid. What you usually do is, you pay one person and then he distributes the

money among themselves. The same goes for the police department. And in our example, when I was there there was only two policemen and a sergeant, and one immigration official and one customs official, so it would probably be a little less.

Senator MCCONNELL. So, you were only paying off a couple of people per transaction?

Mr. GARCIA. No, no, I am only talking about the officials. Now, of course, one of the reasons that I was so successful was that I used mostly natives, people to work the loads instead of bringing them in from the outside, and that created for a very good relationship, good business relationship.

Senator KERRY. Senator, let me interrupt you for just one second. Mr. Bannister needs to be excused just for a moment, and then he is going to be back, so why do you not just escort him out and back while we continue this testimony, then, just bring him back in?

Senator MCCONNELL. How much did the payoffs encroach upon your profits? In other words, what percentage of the money that you were making out of these transactions was dedicated to paying off of the Bahamian officials?

Mr. GARCIA. I worked that out once and it came to about, maybe included in the total cost of about 15 percent of it.

Senator MCCONNELL. So, it cost you about 15 percent of your profits to pay off the various officials?

Mr. GARCIA. Yes, I would say so.

Senator MCCONNELL. Did the size of the shipment have anything to do with——

Mr. GARCIA. Oh, yes, definitely.

Senator MCCONNELL. So, the bigger the haul, the more it cost you to clear it through the process?

Mr. GARCIA. Yes.

Senator MCCONNELL. How much contact did you have with your competition, others doing similar things there?

Mr. GARCIA. Well, I hate to say this, but at one time I was called the "Bahamian Connection." If anybody had any problem and wanted to operate in the Bahamas, they would contact me, and I would try to help them and see them through. I opened up quite a few places for different people to operate as a favor.

Senator MCCONNELL. As a favor, or did you charge them for this service?

Mr. GARCIA. No, most of the time I did it as a favor. Actually, what I was doing was trying to make sure that my Bahamian people, my Bahamian friends who were involved with me in these particular operations would make extra money and they do not have to rely on me completely.

Senator MCCONNELL. So, your motivation was to keep the officials happy?

Mr. GARCIA. Yes, sir, keep everybody happy.

Senator MCCONNELL. And the demand for the drugs was so great you were not really concerned about competition? There was plenty of business out there for everyone?

Mr. GARCIA. No, sir, it does not matter.

Senator MCCONNELL. You have mentioned your bribe to one politician. How may different politicians, elected officials, shall I say,

in the Bahamian Government did you have to bribe over the course of your involvement there?

Mr. GARCIA. Elected officials? I don't think, not directly anybody in particular. I don't think so. I don't think—what they call the commissioners in the outer islands are not elected. I think they are appointed by the government. Those I did pay, quite a few of them. In fact, I used to take them fishing also in my boats, and partying and so forth.

Senator MCCONNELL. How dependent is the Bahamian economy on the drug trafficking?

Mr. GARCIA. In fact, I was told by even members of the party who are in power right now in Ray Harbor, for instance, that I was an industry by itself. That is the way they considered me.

Senator MCCONNELL. And did you see that increase dramatically in the 4 years that you were involved there?

Mr. GARCIA. Oh, yes.

Senator MCCONNELL. So, it was not much of a factor when you started, but it was an integral part of the economy when you ceased your activities?

Mr. GARCIA. I would say, sir, if I may interrupt you, that I came just at the beginning, that this thing was starting to really get off the ground.

Senator MCCONNELL. What in your judgment would happen to the Bahamian economy if we were able to stop this just like that?

Mr. GARCIA. I think they are going to have a hard time trying to pay $1.50 or $2 for a Coca-Cola down there.

Senator MCCONNELL. So, the country now is very dependent upon this illicit business?

Mr. GARCIA. Especially the outer islands, sir. Yes, sir.

Senator MCCONNELL. Then how do we stop it? If the country is that dependent upon this business for its newly acquired standard of living, what kind of incentives could we give to the government to reduce in effect its standard of living?

Mr. GARCIA. Well, I will say, and if I may put my opinion forward, it is that I do believe that the tourist business, the gambling business, the banking business in the Bahamas generates enough money to filter down to the people. No question in my mind about it. But I do believe that before that happens something has to stop at the top.

That means the corruption, the stealing, the knowledge that I have of supposedly a bridge that was owned by the public that was sold privately, and things of that matter. If any elected official makes $72,000 a year and he builds himself all of a sudden a $2 million home and rides around in a Rolls Royce in Nassau, which is very hard to drive a Rolls Royce in Nassau, that tells you something.

Senator MCCONNELL. In your judgment, will anything else other than new officials who are less corruptible down there stop the drug trafficking? For example, would you have been deterred from doing business there if you thought there was a reasonable chance you were going to be caught, convicted?

Mr. GARCIA. Definitely, if the odds would not have been in my favor or in anybody's favor, like it is right now, I am pretty sure that I wouldn't keep on attempting it.

Senator MCCONNELL. Is there anything this country can do to bring about the kind of changes that you suggest are necessary to cut off the flow through the Bahamas?

Mr. GARCIA. Well, I really do believe, sir, that right now we are doing just as good as we can do with what we have got. And lately I understand that we have had a little cooperation from the Bahamian officials, for what I know even though the helicopter was trying to be shot down, about 4 weeks ago, I understand, and still you have that problem, and it is a free country, it is a democracy, and I really don't know. I'm not a politician. I never tried to be one. But something could be done. I'm pretty sure you people on the Hill will find out.

Senator MCCONNELL. Yes, but your judgment is, I gather, that—and this is my final question on this round, Mr. Chairman. I gather your judgment is that the only thing that would have deterred you would have been the inability to bribe officials and the possibility, the real possibility of being caught and convicted over there. Is that correct?

Mr. GARCIA. Definitely that would have—you know, that would have stopped me from continuing my business enterprise.

Senator MCCONNELL. Put another way, our own interdiction efforts in this country would not have been a particular deterrent to you; right?

Mr. GARCIA. No, sir. No, sir, because let's say bringing it in from Colombia into Bimini, which we are talking about——

Senator MCCONNELL. It is pretty easy to do; is it not?

Mr. GARCIA [continuing]. Which we are talking about 1,000 miles, that was a very easy part of it. I mean, that was—you've got the stuff right 50 miles away from you, and you know, then the odds change completely. That type of a risk can be taken. And it is being taken right now.

Senator MCCONNELL. In your judgment then no matter how successfully we beef up our interdiction efforts, that is not going to do anything other than to catch a few? Is that your view, or——

Mr. GARCIA. Yes, sir, that is my view. I don't think we do have the manpower, even though we have the will to do it, and I believe the officials in this country are trying their best, but the sheer amount of boats trafficking, tourists and fishermen, you know, honest people, in the Florida area is tremendous. So, let's say from 25 miles south of Miami on any given weekend you can find hundreds and thousands of boats riding the waves of Biscyane Bay. Any one of them could have drugs in there. It is almost impossible to tell which is which.

Senator MCCONNELL. So, you are going to have to have some real cooperation from the countries involved, either the countries of origin or the countries of transition?

Mr. GARCIA. Definitely. I can say right now from my contacts that I still have on the other side, in fact, on both sides, that that particular situation stops in the Bahamas. It would create a lot of problems for a lot of people, definitely. I would say that right now more than half of them would have to stop or they would be caught if they continued doing it because the logistics are not there. If you take the logistics away it becomes a very difficult job, very difficult.

Senator MCCONNELL. Thank you, Mr. Chairman.

Senator KERRY. Mr. Garcia, let me come back, if I can for a minute, to a question I asked earlier about a bribe that you paid being returned. Was there an occasion when you paid a magistrate to get ahold of an airplane?

Mr. GARCIA. Yes, sir, but that was not a bribe, so I believe I did answer you correctly.

Senator KERRY. You were paying him for the airplane?

Mr. GARCIA. Not him. I did not pay him.

Senator KERRY. Can you tell us what happened?

Mr. GARCIA. I paid the customs department, which had confiscated the airplane, and of course they had it up for sale. Now, of course, my lawyer, who was Bahamian at the time, he did arrange things to make sure that my bid was the first one to be considered.

Senator KERRY. And you were bidding on a drug airplane that had been confiscated?

Mr. GARCIA. Yes, sir. In fact, the pilot who was flying that particular airplane who got arrested as the first, well, the fist pilot that I went down to Colombia on my own—on my own enterprise, my own business. It was him.

Senator KERRY. So, you fully expected because you had paid the money to get the airplane?

Mr. GARCIA. Oh, yes. In fact, I definitely had the airplane. I had pulled him out of jail on the $30,000 bail and I flew with him to Nassau to pick up the airplane.

Senator KERRY. But you did not get the airplane?

Mr. GARCIA. No, sir, I did not get the airplane.

Senator KERRY. What happened?

Mr. GARCIA. At the last minute there was a letter from the U.S. Ambassador telling customs, the magistrate, actually, to consider the fact that airplane belonged to some pharmaceutical company in Atlanta, and to please do everything in their power to have that airplane returned to the United States.

Senator KERRY. And the airplane was returned?

Mr. GARCIA. As far as I know. Yes, sir.

Senator KERRY. Now, coming back to the question Senator McConnell was asking about, interdiction, is interdiction a good law enforcement—I mean, you are sitting there. You make plans to run in. You have got airplanes. You know the islands. You know how to get the drugs in and out. If you are sitting there today and you know that we have got these interdiction forces there——

Mr. GARCIA. Yes, sir.

Senator KERRY [continuing]. Given the current level of the force, and the current efforts, would you still decide to go ahead and run drugs in?

Mr. GARCIA. Yes, sir, as long as I have the Bahamians, as an aircraft carrier, I would.

Senator KERRY. Why is that?

Mr. GARCIA. First of all, you have protection. You have a place where you are only 50 miles away and no matter what happens if somebody is chasing you up there 30 miles out in the ocean and you see them coming, you can turn around and head back into the islands, and of course you are paying for protection. They are going to protect you.

Senator KERRY. And when you say "protect you," that means that if you get arrested, what happens to you?

Mr. GARCIA. Not in the Bahamas sir, not if you pay, you won't get arrested. I mean, they just turn their backs or whatever.

Senator KERRY. But some people do get arrested; right?

Mr. GARCIA. Yes, sir.

Senator KERRY. What happens to the people who get arrested?

Mr. GARCIA. In my times you just pay bail and bail out and leave.

Senator KERRY. You do not go to jail?

Mr. GARCIA. No, sir.

Senator KERRY. You do not get prosecuted?

Mr. GARCIA. No.

Senator KERRY. And is that understood, is that known before you enter into these——

Mr. GARCIA. Yes, sir. Now, for instance, let me tell you in 1982 by mistake, by an error five of my people got arrested, like I said, by—completely by mistake, and they all left jail, and nobody was sentenced. They were all acquitted. It did cost me $250,000 there.

Senator KERRY.It cost you $250,000?

Mr. GARCIA. In fact, $272,000 to be exact.

Senator KERRY. Who did you pay that to?

Mr. GARCIA. A lawyer, a Bahamian lawyer.

Senator KERRY. Has the new U.S. equipment and radar helped at all. We hear a lot about it, we have got this big new radar and everything. Does that make a difference?

Mr. GARCIA. Yes, sir. It has made a difference, but I still hear from my old pilot friends that sometimes they can go around it.

Senator KERRY. When you were in the business, how did you handle your cash?

Mr. GARCIA. Just keep it in a suitcase. Family members I would give it to to hold it for me.

Senator KERRY. Well, was there a point where you had an enormous collection of cash in your house?

Mr. GARCIA. Yes, sir.

Senator KERRY. Do you want to describe that?

Mr. GARCIA. Well, there were many times that we were counting money. I wouldn't bother with the $5 or $1 bills. We will give it to somebody to go out and get beer or something as a gift. Money will be in my living room, which is about 24 by 24 or something like that. In a good part of it will be up to you ankles. The money will be up to your ankles when you step on it.

Senator KERRY. In this living room?

Mr. GARCIA. Yeah.

Senator KERRY. And what would you do with the money?

Mr. GARCIA. Pay people off, you know, pay everybody off and then buy things, spend it.

Senator KERRY. What about the money you kept for yourself? What did you do with that? You obviously were not just in the business of giving it away.

Mr. GARCIA. Maybe that is the reason why I was in the business 4 continuous years and nothing ever happens to me. I did—I didn't retire with as much money as I would have liked to.

Senator KERRY. Did you ship some suitcases to certain places?

Mr. GARCIA. Yes, sir. Panama. Panama is a very good place to launder money.

Senator KERRY. Panama?

Mr. GARCIA. Yes, sir.

Senator KERRY. And you would just take these suitcases and ship them? How would you get them down there?

Mr. GARCIA. I paid, I believe it was 10 percent, 10 percent of whatever I was shipping I was paying to a fellow who, by the way, is in jail right now, who would make the arrangements.

Senator KERRY. Where was this fellow?

Mr. GARCIA. In Miami. He wouldn't only take my money. He would take money for any other dopers. I believe at one time when he was arrested he had like $5 million in a Lear jet ready to be flown back to Panama.

Senator KERRY. And he was taking it down to Panama?

Mr. GARCIA. Yes, sir. I did take some money myself to Panama one time.

Senator KERRY. You took your—I am sorry, you——

Mr. GARCIA. I did take some money myself to Panama.

Senator KERRY. Was Panama the principal place where you deposited or laundered money?

Mr. GARCIA. The Bahamas also.

Senator KERRY. Now, have you ever talked to Gorman Bannister before——

Mr. GARCIA. Yes, sir.

Senator KERRY [continuing]. Meeting here today?

Mr. GARCIA. Yes, sir.

Senator KERRY. Can you describe how you have known Mr. Bannister, Gorman Bannister?

Mr. GARCIA. Well, I met Mr. Bannister about a month ago, 5 weeks ago, something like that, yes, first week of April in Miami. I didn't know the gentleman personally but I did know his father, who I did business with.

Senator KERRY. And who is his father?

Mr. GARCIA. Mr. Everett Bannister.

Senator KERRY. OK. Where did he live?

Mr. GARCIA. As far as I know, in the Bahamas right now.

Senator KERRY. And what dealings did you have with Mr. Bannister?

Mr. GARCIA. I gave Mr. Bannister $20,000 that was a 10-percent downpayment of a $200,000 deal. That included taking me off the stop list or restricted list, and also to make things much easier for me to operate, the way he put it, instead of getting protection from halfway, let's get protection from the top.

Senator KERRY. What were the circumstances of your meeting Mr. Gorman Bannister, who is here?

Mr. GARCIA. I guess that the reason for it was, not that I guess, I am positive, a generous friend of mine told me that Mr. Bannister was coming over to talk to him, and you know, I told him I was interested in meeting him, and he wanted me to meet him also, because I guess it makes good copy, the son of a businessman in the Bahamas who could fix things in the next doper, and we got to know each other, and I think I am instrumental in having Mr. Bannister sitting where he is right now.

Senator KERRY. When Mr. Bannister first came to you did you question his credibility?

Mr. GARCIA. Well, when I first met him, of course, you have to be a little reluctant until you know who he is and what is he doing, and I would guess I would do the same thing with anybody that I meet for the first time.

Senator KERRY. Did you do anything special to try to test his credibility to tell whether he was coming straight to you?

Mr. GARCIA. Yes, I did. Without his knowledge, I guess I did.

Senator KERRY. What did you do?

Mr. GARCIA. Well, I would like be asking certain questions that I spoke to his father about, why did his father come to me, and he did come up with the right answers, and in fact one time without being my intention we drive up where I used to live in Miami, and there was three buildings almost equally exactly alike, and he picked out the right one where I used to live because he dropped his father there one time.

Senator KERRY. Now, when his father had been dropped there, is that when you had paid his father money?

Mr. GARCIA. No, it was a former son-in-law of mine who was paying. I was not happened to be at home at that moment, but my son-in-law was.

Senator KERRY. Do you know whether or not Cuba has been active in supporting drug smugglers?

Mr. GARCIA. I think so from the rumors that I hear. It is all over Miami. Yes, sir, it is very active right now.

Senator KERRY. But you say by rumors.

Mr. GARCIA. Well, you hear things on the street, you know, people using Cuba as a transshipment point. I would say using Cuba the same as the Bahamas, not as openly, of course.

Senator KERRY. Did you ever use Cuba?

Mr. GARCIA. No, sir, I was in Cuba in 1979, and I was offered that if I wanted I could——

Senator KERRY. You were offered to use Cuba?

Mr. GARCIA. Yes, sir.

Senator KERRY. Personally?

Mr. GARCIA. Personally.

Senator KERRY. Have you talked with people that you know personally that have used Cuba?

Mr. GARCIA. At the beginning of 1979, 1980, I did speak to a couple of people that had used Cuba as their refueling point, having a little protection from the weather, you know, while they are coming in from Colombia.

Senator KERRY. And you say this is on the street, so to speak, in Miami?

Mr. GARCIA. Yes, sir, the rumors are there, definitely.

Senator KERRY. I think it is something we obviously will want to explore and see if we can get a better handle on it as we go along here.

Which islands did you operate from in the Bahamas?

Mr. GARCIA. Oh, just about every one that there was a strip in it or, you know, an airport.

Senator KERRY. Why did you move from one island to another?

Mr. GARCIA. Well, let's say the competition will come in and start operating on one island, and they will do certain things wrong, like a plane coming in and crash landing, or people getting drunk out in the street, or using their own product, and the place will get hot. Now, I was not just about to go ahead and pull an Al Capone or anything like that and shooting people, so the best way is to move away, and being that I had almost access similar to every island in the Bahamas because I as very well known and I could operate just about any place.

Senator KERRY. Did you know a smuggler named George Moralis?

Mr. GARCIA. Yes, sir, Mr. Moralis made his first trip of grass, marijuana with a plane that he rented from me.

Senator KERRY. And do you know why he got caught?

Mr. GARCIA. Well, it was a matter of time whether Mr. Moralis was going to get caught by our own law enforcement or he was going to get killed by somebody, but I do know that he made quite a few mistakes, and even though I know the man, and I don't have any animosity toward him—I should, but I don't—I think he made too many mistakes. I don't think he was a real professional.

Senator KERRY. Mr. Garcia, let me ask you, you talk about some of these folks playing pretty rough. It is a known fact within the drug world and the law enforcement community that indeed it is a world in which people get killed, and many have.

Here you are testifying openly. You have testified in court before, have you not?

Mr. GARCIA. Yes, sir.

Senator KERRY. You don't worry about your own safety?

Mr. GARCIA. Yes, I would be lying if I said that I don't. But I try not to think about it. I have been threatened, like I say before in my statement several times.

Senator KERRY. Senator McConnell.

Senator MCCONNELL. Thank you, Mr. Chairman. A couple of more questions.

If we were to shut the Bahamas down, in your judgment where would the smugglers go?

Mr. GARCIA. I think if I were a regular smuggler, if I were a smuggler now, first of all, I will stop, to begin with. I wouldn't go any place else. I would stop doing it right then and there, pick up my marbles and leave. But knowing these people and how greedy they can be, and how stupid some of them can be, most of them, I would go to Mexico.

Senator MCCONNELL. Mexico then would be more inviting than Cuba?

Mr. GARCIA. Well, are we talking about a different type of smugglers? See I am relating to the Cuban smugglers that I know, and one of the reasons they are in Miami is because they can't take communism. So, like the guy that I used to work for at the beginning when I started in it, the offer to operate out of Cuba was made to me to relate it to him because I was his righthand man, and he says, no way, I will never deal with Communists, not even to smuggle drugs. But I would say some Americans——

Senator MCCONNELL. Anti-Communist smugglers do not want to deal with Cuba then; right?

Mr. GARCIA. Cubans, I will say.

Senator MCCONNELL. So, your feeling is that Mexico would be a place where smugglers could operate?

Mr. GARCIA. Yes, sir. Yes, sir. They do now. They do now.

Senator MCCONNELL. For the same kinds of reasons that smugglers can operate in the Bahamas?

Mr. GARCIA. Correct. For protection. For——

Senator MCCONNELL. Is that happening now?

Mr. GARCIA [continuing]. The way—yes, sure.

Senator MCCONNELL. You mentioned Panama. You mentióned Cuba. We have talked about the Bahamas, and you have mentioned Mexico. Are there other countries in that area——

Mr. GARCIA. The Dominican Republic is coming around pretty good now.

Senator MCCONNELL. So, you could also operate there with relative impunity for a price?

Mr. GARCIA. Yes, sir.

Senator MCCONNELL. Are there other countries?

Mr. GARCIA. Jamaica. Jamaica. You can operate in Jamaica. There is no problem, except that you have the island of Cuba between and you have to go around it, so you know, it's almost the same distance if you are coming in from the north coast of Colombia.

Senator MCCONNELL. So, since you do not put much faith in our ability to deal with this problem very significantly from an interdiction point of view, to have any real impact on the matter, we are going to have to have some kind of multilateral coooerative agreement with a variety of different countries to have any impact on this problem. Is that correct?

Mr. GARCIA. Yes, sir, but not only in that particular area. I think the war against drugs has got several fronts, and there is no question about it, that is one of the most important ones, but that is not the only one. You do need interdiction. You have to deal with these countries that, you know, allow their officials to be bribed and so forth. You have to deal with the economics of it, and I think it is very important that it finally starts happening in here. You have to deal with educating the American people and the young people to say no to drugs.

Senator MCCONNELL. That is what I was going to ask you. That is the one thing we have not talked about. How significant an impact on this whole problem could we have in this country with our educational efforts, simply trying to encourage people to not use this product, to do something on the demand end of it?

Mr. GARCIA. That's right, sir.

Senator MCCONNELL. Is that a good place to be spending a lot of our resources in this country?

Mr. GARCIA. I would say yes.

Senator MCCONNELL. Is that more productive than——

Mr. GARCIA. I would say yes, it is—education is one of the major fronts in this war.

Senator MCCONNELL. If you were slicing up the antidrug dollars, would you put more into education than you would into interdiction, for example?

Mr. GARCIA. No, I think you've got to have both of them. You have got to have both of them. But I would say that the effort on education is not only up to the Federal Government, I think it is up to the communities themselves. But you do have to have interdiction, and you do have to deal with this country's—now, I don't know if everybody is aware of what is happening in Miami now with our city of Miami Police Department, which almost the entire night shift has been found or is going to be found to be corrupt in all kind of crimes. The only reason for that is because of the drug problems that we have.

I will not say that there will never be a crooked cop or somebody that goes out and robs a bank even though he is a policeman. We are always going to have that. But the main reason that there is such a huge amount of corruption not only in the police department but in our own society in Miami is because of, you know, where we are located geographical, in front of the Bahamas. The Bahamas is there. Drugs come through the Bahamas on a—like I say, it is just as busy as Miami International Airport, and then it comes into Miami.

Senator MCCONNELL. Finally, Mr. Garcia, given how profitable this business is; why did you get out?

Mr. GARCIA. Many people have asked me that question, and I have tried to answer it myself. First of all, I saw certain things. A 13-year-old boy that I have, my only son, I do have other daughters, but he is the only male, and I just didn't like it. I didn't like the way he was taking the scene and, you know, I didn't like to be dealing with the same people constantly, talking the same language, not being able to read a book because if you read a book, what are you doing, Kojak? You are not thinking about drugs anymore? And people using drugs. I was a combination of many things.

I don't know. I am not going to be a hypocrite and say that I found God. I think I found God when I was born. Or anything like that. It is just that I got disgusted with the whole thing, and I was pretty much aware that what may happen to—and what was happening to my own family.

Just 2 months ago I had a very bad personal experience. I lost a cousin, a girl, 32 years of age, stabbed to death in Miami, 16 times, by another drugger that was using the drugs, crack, by the way, both of them, and he just took a knife and stabbed her. A year ago I lost a son-in-law in New York City by an overdose, 32—31 years of age.

Right now one of my grandchildren, my first grandchild, who is 18, we are having a lot of problems with him. So, I am talking about experience, personal experience. I saw all that coming, and I figured before it got any worse, you know, and not only that I get out of it, I think I have done just about anything anybody can do to be here, for instance, to try to fight this evil. Not only in the States, I have done it in Europe. Anybody, anywhere where I have been asked to help, I have done it, even at my own expense.

Senator MCCONNELL. Thank you, Mr. Garcia.

Senator KERRY. Mr. Garcia, can you put a value on the drugs that you brought through the Bahamas in the years you were trafficking?

Mr. GARCIA. Oh, if I do, I have done that before, and I have said that before, and I think I have just taken a guess. I don't know. It could have been—it all depends on the value, the retail end of it or the wholesale end of it, because that is the business, and supposedly it is conducted as a business. It goes into the millions of dollars. If we are going to the retail end of it, I would say over $10 million. Who knows?

I mean, oh, my God, even more than that at the time, 1982, that I—by way of the Bahamas I transported exactly 377 ki's of cocaine, which was almost $100 million in those days.

Senator KERRY. $100 million in 1982 alone?

Mr. GARCIA. Yes, sir.

Senator KERRY. And could you put a value on the numbers, the amount of money you spent buying protection in the Bahamas?

Mr. GARCIA. Like I say, anywhere between 15 and 20 percent.

Senator KERRY. So again, millions of dollars?

Mr. GARCIA. Yes, sir.

Senator KERRY. From our perspective, and I know you are not a policy expert, but sitting there as a person who knows the thinking of traffickers, and knows the way trafficking is planned, are there ways that we can leverage policy, are there things that we can do that will make a difference in any of these countries?

Mr. GARCIA. Well, you said it correctly, sir, when you say I am not a policy expert, but I would say that if we change the rules of the games a little bit, if we change the players a little bit, maybe the new players will see a little better our own way, let's say my personal way this time, and at least be more discrete. I don't think we are ever going to stop, you know, the drug business completely. I mean, that is like trying to stop people from having a scotch. I think we did try it in this country and it didn't work.

But you know, let's have a little bit more professionalism into it. And you know, whoever gets caught, no matter where he gets caught, let's pay the rice. I mean, if you want play, you better be ready to pay, and not only in this country, which happens, thank God, but in any other country, instead of having a guy bail out and, you know, just take off or——

Senator KERRY. Is one of the significant reasons the Bahamas is such an important transit point the fact that people can pick it because it is easy. They know they won't pay? Is that what you are saying?

Mr. GARCIA. That's right, sir. Correct.

Senator KERRY. And you know that that is in fact true today?

Mr. GARCIA. Yes, sir.

Senator KERRY. As we sit here?

Mr. GARCIA. Yes, sir. In fact, one of my former pilots, I think he got—he got—like I say, sometimes things, you know, get out of focus a little bit. People make mistakes. What I am saying is, honestly what I am trying to say is, somebody is supposed to pay somebody and they didn't pay it, so that is how the mistake comes about.

This former pilot of mine was sentenced to 2 years, and I believe he was bringing in a huge amount of cocaine, like 600 ki's or something, and he got nabbed or he got caught in the Bahamas, and

like I say, by mistake he wound up in jail, and I believe he just got out now, in April. Two years. That's it.

Senator KERRY. How much would the cocaine be worth that he transited?

Mr. GARCIA. Well, right now I understand you can actually buy it on the streets of Miami for about $17,000, $18,000. Sometimes it can go as low as $16,000 a ki.

Senator KERRY. And he brought in 600?

Mr. GARCIA. He was bringing in 600. By the way, I believe half of the log got lost, which usually happens.

Senator KERRY. We are now joined by the chairman of the committee, Senator Pell, and I wonder, Senator, if you have any questions you want to ask. We are just at the end of Mr. Garcia.

The CHAIRMAN.. It may have been covered. Was there any mention, any question asked with regard to the relationship with Cuba?

Senator KERRY. Yes.

The CHAIRMAN.. It was asked? I have no questions. Thank you.

Senator KERRY. Thank you.

Well, then, Mr. Garcia, if you would just sit tight, we may come back in the course of the questioning.

Mr. GARCIA. Yes, sir.

Senator KERRY. We would like to turn to Mr. Bannister if we could. Mr. Bannister, would you stand, please, and raise your right hand?

Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Would you state your full name, please?

STATEMENT OF GORMAN BANNISTER, MIAMI, FL

Mr. BANNISTER. I have a statement.

Senator KERRY. Could you just state your full name?

Mr. BANNISTER. My full name is Gorman Bannister.

Senator KERRY. And where are you from?

Mr. BANNISTER. I am from New York.

Senator KERRY. You say you have a statement you would like to read to the committee?

Mr. BANNISTER. Yes, sir.

Senator KERRY. Go right ahead.

Mr. BANNISTER. My name is Gorman Bannister. I am 32 years old. I am an American, and I grew up in America. I was schooled in America through college. My family is Bahamian, from the Bahamas. My father's name is Everett Bannister. At one time he was the influence peddler of the Bahamas bar none. I spent 14 years of my life in a cocaine trap. By God's will I am here today to tell about it.

The path that God chose for the Bahamas has practically been destroyed by man. A new path must be undertaken to avoid Bahamians from suffering from its newly escalated style of living. This new style of living cannot be maintained as long as it is based on ungodly resources such as greed, drug selling, and influence peddling. I have chosen to tell of the factual lifestyle of Bahamians of all segments of the society so the world can understand and assist that beautiful country in reaching its true path.

If we do nothing about the selling and abuse of cocaine, mankind will be condemning yet another generation to endemic cocaine addiction. The type of high octane materialism is in the Bahamas is not conducive to long-term prosperity for any country or mankind.

Senator KERRY. Thank you very much, Mr. Bannister.

How do you come to be here today?

Mr. BANNISTER. Well, as a result of circumstances coming about in the Bahamas, personal circumstances, my drug use, I decided that I felt someone had to speak of the injustices done to certain individuals in the Bahamas and the injustices being done in regard to mankind. So, the things that I was privy to through my knowledge of working with my father, I decided to disclose them to a reporter of the London Times.

Senator KERRY. How long ago did you do that?

Mr. BANNISTER. I think it was about the beginning of April, approximately.

Senator KERRY. Of this year?

Mr. BANNISTER. Yes, sir.

Senator KERRY. And subsequent to that did you contact the Drug Enforcement Administration?

Mr. BANNISTER. Yes, yes, I did, because I realized that some of the things that I knew could be detrimental to myself legally, so it was best that I contact them before they contact me, and contacting them and being here today and being a Federal witness I realized was all part of the situation of helping myself and letting the world know firsthand of what is really going on in the Bahamas on a sociological level. As far as drugs are concerned, as far as influence peddling is concerned, and as far as greed.

Senator KERRY. Where did you go to school here in this country? Where did you go to college?

Mr. BANNISTER. I graduated from the University of Bridgeport in Connecticut.

Senator KERRY. What year did you graduate?

Mr. BANNISTER. 1978.

Senator KERRY. While you were at school, were you receiving considerable amounts of money from your father?

Mr. BANNISTER. I would say considerable amounts of money in the normal sense of being a college student.

Senator KERRY. How much money——

Mr. BANNISTER. I was getting about $500 a month from my father.

Senator KERRY. In cash?

Mr. BANNISTER. Oh, yes, in cash. And then if I needed money in between that point in time I could get it. My schooling was paid for.

Senator KERRY. And at some point did you return to the Bahamas?

Mr. BANNISTER. Yes, I returned to the Bahamas in 1976. I left school for 2 years. I returned in 1976. I returned in 1975, and I went back to school in 1976, and I graduated in 1978. After 1978, I was living in the Bahamas on a full-time basis.

Senator KERRY. And at that point you started to work for your father?

Mr. BANNISTER. Yes. Well, I was always working with, you know, during the summers and during my hiatus from school for a year. But that is when I started working for him full time.

Senator KERRY. At what point in time did you become a drug user?

Mr. BANNISTER. From 1973.

Senator KERRY. What kind of drugs were you using?

Mr. BANNISTER. Marijuana, cocaine.

Senator KERRY. And you became a heavy user?

Mr. BANNISTER. Yes, I became a heavy user, yes, I did. As the availability in the Bahamas itself became easier, I became a heavier user.

Senator KERRY. Now, can you describe that to us? What sort of drug availability was there in the Bahamas in 1978 when you returned?

Mr. BANNISTER. OK, well, let me go, if I may, Senator Kerry, let me——

Senator KERRY. Absolutely.

Mr. BANNISTER [continuing]. Go to 1973. In 1973 cocaine was—in the Bahamas itself, cocaine was practically unheard of. You had very few people who—you had very few people who had cocaine to sell. You had cocaine on a street level, but then there was probably only two or three people who actually were controlling it, and cocaine was unheard of. I mean, cocaine was to the point where—I mean, this is during the time when they were bringing marijuana through Jamaica into the Bahamas in a regular suitcase, maybe with some newspaper over it.

I mean, smuggling was really unheard of at that point. It was, you know, it was unheard of. Through my associations with different people in the Bahamas and through my family name, I was fortunate enough, even though it has worked out to this point now to be unfortunate, but at that time I was fortunate enough to have a top connection, one of the top two or three people in the Bahamas, for cocaine.

There as no such thing as freebasing then. It was unheard of. It was snorting the cocaine, sniffing the cocaine. It wasn't a partying situation at that point. It was a social thing like drinking champagne. It now goes to 1978 if you want me to. 1978, the availability of cocaine was rather, not rather easy, but it was relatively easy. It was relatively easy. You would be able to get cocaine. There was very little freebasing going on then. You would be able to get cocaine.

The reason why I said it was rather easy, because now at this point you were able to get extremely quality cocaine at the street level whereas in 1973 you only had two or three people that you could get that from.

Senator KERRY. So, in 1987, today, as we sit here——

Mr. BANNISTER. Right.

Senator KERRY [continuing]. How would you describe the situation in the Bahamas?

Mr. BANNISTER. They have a saying that in the Bahamas there is a church and a bar on every corner in the Bahamas, and that is correct. But they have added something new to that now. There is

a church and a bar and a house for cocaine on every street in the Bahamas, and that is correct.

Senator KERRY. Have you noticed any change in the last few years with respect to the enforcement process in the Bahamas?

Mr. BANNISTER. Well, the majority of the police that were crooked have been arrested or kicked off the force, so as a result of that the corruption level has subsided somewhat. I am talking about directly in the interior of Nassau, but I don't know too much about the outer islands because I never had to even venture that far to deal with drugs, but I would assume that the same type of activities that have gone on before——

Senator KERRY. Well, we do not want you to make assumptions.

Mr. BANNISTER. Oh, I am sorry.

Senator KERRY. I want you to talk about what you know about.

Mr. BANNISTER. I don't know about that.

Senator KERRY. OK. Now, when you went back in 1978, you became—will you describe your father's business, tell us what he did?

Mr. BANNISTER. OK. Well, my family moved back to the Bahamas in 1967, when the Pindling government took over if—I believe it was 1967.

Senator KERRY. Did your father already know Mr. Pindling?

Mr. BANNISTER. Oh, yes, he had known Mr. Pindling for years, yes.

Senator KERRY. Where did he know him——

Mr. BANNISTER. From childhood. See, my parents migrated to the Bahamas about 38 years ago, but then my father always——

Senator KERRY. And you were living in New York?

Mr. BANNISTER. Yes.

Senator KERRY. And at the time the Pindling government came in in 1967, your father went back?

Mr. BANNISTER. Yes, but he always was in touch and sympathized with the cause of the black man in the Bahamas. They had certain Bahamian social groups in New York that all the Bahamians would gather for events. Certain political people from the Bahamas, like Mr. Pindling, and Mr. Nadage, and people of those type who were senators at that time, they would come up, and my father was like, he was like the Bahamian—he was like the Bahamian connection abroad, in New York, so he always was in contact with and sympathized with the black cause.

Senator KERRY. What did your father begin to set up as a business when he went back?

Mr. BANNISTER. Yes, when he went back my father—any father and—and it was the prime minister's dream always was to have an internationally black-owned airline, one that was totally owned by black people, and that is what they set out to do, and it was called Bahamas World Airlines.

Senator KERRY. And at that point in time did your father meet Robert Vesco?

Mr. BANNISTER. Yes. Well, to be accurate about it, I was away in school, in school at the time that Robert Vesco actually came into play, so I don't really know the mechanics of how he came into play. At that point Robert Vesco was the man that put Bahamas World Airlines on the map.

Senator KERRY. And what did your father do for Vesco?

Mr. BANNISTER. My father was a conduit for Robert Vesco to the prime minister. My father was a conduit between the two of them.

Senator KERRY. How much money did Vesco invest in the Bahamas? Do you know?

Mr. BANNISTER. I don't know. I don't know.

Senator KERRY. Did he invest money through your father?

Mr. BANNISTER. Oh, definitely.

Senator KERRY. And how do you know——

Mr. BANNISTER. He opened a bank in the Bahamas.

Senator KERRY. How do you know that?

Mr. BANNISTER. Oh, well, I know that because of the dealings that he had with my father. My father had carte blanche at the Bahamas Commonwealth Bank. In one particular instance, my father sent a minister who was a minister of the government up there to collect $10,000. He needed a $10,000 loan from this bank, Bahamas Commonwealth Bank.

Senator KERRY. Was there anything unusual about somebody getting a loan from the bank?

Mr. BANNISTER. There was nothing unusual about it if my father sent him. It was not so unusual because he picked the money up from the guard at the door. You know, the guards who open the doors at the banks? That's who he picked the money up from, the minister. No papers. No——

Senator KERRY. $10,000 in cash.

Mr. BANNISTER. Yes.

Senator KERRY. Do you know what it was for?

Mr. BANNISTER. I don't know. He probably had some personal problems or——

Senator KERRY. But you do not know?

Mr. BANNISTER. No.

Senator KERRY. OK. Now, did your father introduce Vesco to the prime minister?

Mr. BANNISTER. I don't know.

Senator KERRY. Did Vesco use his money to buy protection from extradition?

Mr. BANNISTER. Definitely he did. As a matter of fact, the extradition laws that they have now, even though they might have updated them somewhat, but the extradition laws that they have now was started by Robert Vesco. When I say started, they made that law to protect Robert Vesco from extradition.

Senator KERRY. And can you describe what took place, in what way Vesco got that? Do you know?

Mr. BANNISTER. No, I don't. I just know that the judge who gave the ruling is an African. His name is Emanuel Osadabe, and he was a judge, and he retired, and he now works in the law firm of Kendall, Nadage, and he——

Senator KERRY. Mr. Nadage——

Mr. BANNISTER. He is an African. He is a foreigner.

Senator KERRY. And Mr. Nadage is a former cabinet minister associated with Mr. Pindling; correct?

Mr. BANNISTER. Certainly.

Senator KERRY. Now, at some point in time your father went to work for Resorts International?

Mr. BANNISTER. OK.

Senator KERRY. Is that correct?

Mr. BANNISTER. I wouldn't exactly say went to work for them, but he was——

Senator KERRY. Well, would you describe the relationship?

Mr. BANNISTER. Well, the same type of relationship that my father had with Lyndon Pindling as far as being able to consult him on matters, of any matters, being able to speak for him in certain matters without having to consult him first, that is the same type of relationship he had with Mr. James Crosby. Mr. James Crosby, who is the owner, he is dead now, Mr. Crosby consulted my father and asked for my father's advice on many subjects, whether it be in the Bahamas, or whether it be in the United States. He really—my father was very, was very personable with Mr. Crosby.

Senator KERRY. And was it at this point in time that you began to keep your father's checking accounts?

Mr. BANNISTER. Yes, sir.

Senator KERRY. For how long a period did you keep the checking accounts?

Mr. BANNISTER. I kept his checking accounts from 1978 to 1981.

Senator KERRY. Can you describe the Resorts International relationship in terms of the checking accounts?

Mr. BANNISTER. Well, my father, he had a $50,000 a year contract with resorts, and they would supply him with two cars of his choice every year. He would get approximately $1,000, and I think the check was $1,094 every week or every 2 weeks. I would go and pick it up, and I would just deposit it into one of his bank accounts.

Senator KERRY. Do you know what he did for that?

Mr. BANNISTER. Sure. Well, like I say, he advised—he was a conduit between Resorts and the government actually. That's what it actually was. He was a conduit between Resorts and the government.

Senator KERRY. When you say "a conduit," can you describe that more?

Mr. BANNISTER. Yes, when Resorts would probably be having union problems, the management, or wanted certain concessions added or wanted certain concessions taken away it would just be natural for them to go through my father, and my father would, if need be, ultimately involve the prime minister in these affairs. A lot of times he did not have to involve the prime minister because he could avoid a problem, whether it be union or concessions, he could avoid that by talking directly to the person.

Senator KERRY. Is there anything unusual about that? Many people in many cities in this country hire a law firm locally to help them to deal with local zoning and other kinds of problems. Was there anything that made this unusual?

Mr. BANNISTER. Well, I felt it was unusual because my father's business was supposed to be "an airline business," so I found it unusual, I mean, in the sense that if he was an airline man, he was an airline man, but he had so many irons in the fire, so I just found it unusual.

Senator KERRY. Were any of those accounts used to pay expenses for Prime Minister or for Lady Pindling?

Mr. BANNISTER. Well, at one point in time I know—I'm not sure of how long ago it was, Lady Pindling was in London, and her account had been frozen at a place called Harrod's or Harris or something like that, because she had owed some money, and my father jumped on the first plane and immediately when over there with the money and paid it.

Senator KERRY. From those accounts?

Mr. BANNISTER. Yes, from one of those accounts.

Senator KERRY. Now, can you describe in some detail the relationship between your father and the prime minister?

Mr. BANNISTER. Well, I can only say that it was a business relationship, but I feel like the friendship was based around the business relationship. That is all I could really say on that subject.

Senator KERRY. OK. Well, your father has been called the "Prime Minister of Bahamian Business"; has he not?

Mr. BANNISTER. Yes, that's true. He was proud of that, too.

Senator KERRY. All right. Can you tell us why that was?

Mr. BANNISTER. Simply because of the fact that my father could stop or start by a telephone call, which eventually would have to lead to a payment, he could stop or start anything in the Bahamas.

Senator KERRY. What do you mean by "lead to a payment"?

Mr. BANNISTER. Well, he could pick up the telephone and say, "well, I want you to do this for me, I want you to clear an individual's money at the Central Bank, allow them to operate in this country because it is in the interest of the country, and he is a good businessman." Now, as a result, the Bahamian attitude would be, sure, but what is it going to get me? And that is when the payment would come in.

Senator KERRY. So, your father was able to delay a central bank approval of an investment?

Mr. BANNISTER. My father was able to delay one, or he was able to enhance one.

Senator KERRY. Were you managing his money when he was approached to help General Somoza stay in the Bahamas?

Mr. BANNISTER. I was managing his bank accounts. No one ever managed my father's money but him, but I handled his bank accounts.

Senator KERRY. Can you tell us what happened when General Somoza made that approach?

Mr. BANNISTER. Yes. Well, apparently Anastasio Somoza was exiled or left Nicaragua, and he was in south Florida for some time, but he wanted to leave south Florida and be in an area that was close in proximity to his businesses in south Florida, so they chose—some way they chose in the Bahamas. At that particular time the prime minister and the deputy prime minister was away at the commonwealth meetings in Africa.

Senator KERRY. What year would this have been?

Mr. BANNISTER. I can't really recall, sir. So, automatically the rein of power was left in the hands of Paul Attley, and Paul Attley has never been a fan of anything resembling the name Bannister, never been a fan. Underneath Paul Attley was a man by the name of Darrell Rolle, who was a cabinet minister. At that time he was cabinet minister of home affairs.

So, he was more or less keeping my father abreast of what Paul Attley was trying to do, giving him advice on how best that they could keep Anastasio Somoza in the country temporarily until the prime minister had come back and could actually direct this man's chance of staying in the Bahamas, so one morning my father got on the plane and went down to Exuma, where Anastasio Somoza was on his boat. When he left the office he told me to wait at the office until he come back no matter what time it is, to wait. I did.

When he came back, he came back with a valise, and he had money in it stacked in 1,000 bills with wrappers around it, U.S. money, and I counted out $320,000. Several times he made me count it out. I separated—do you want these—do you want this?

Senator KERRY. Yes, I do.

Mr. BANNISTER. OK. I separated it into—he asked me to separate it into $280,000 and he asked me to put the other remainder, $40,000 on the side. When I did that, and I counted it again, he got on the telephone and—well, you say I shouldn't assume, but who he—who he spoke to into the telephone, the words he used into the telphone was, "May I please speak to the lady?" And apparently the lady got on the phone, and he said, "OK, I am coming down with the money now." So, he went his way—oh, no, I'm sorry.

So, he asked me to take out $3,000 out of the $40,000 for personal reasons, for myself, my mother, and my brother, he put the remainder of the money in his vault. The $280,000 he put in his bag to collect to go. I said to him, "Well, you know," I said, "it is not really any of my business, but I don't understand this breakdown." You know, I could live with—I could forget about 50-50. This is exactly what I told him. I said, I could even live with 60-40. I said, "Even with this amount of money, 70-30 I could live with, but what you are breaking it down to now?"

He said, "Well, you know, Gorman, if it wasn't for the man I wouldn't be able to do things that I do." I said, "Yeah, but you have to realize, too"——

Senator KERRY. That is all he said, "If it wasn't for the man"?

Mr. BANNISTER. The man. Yeah, that's how he referred to the prime minister, "the man."

Senator KERRY. And he said, "if it wasn't for the man"——

Mr. BANNISTER. "If it was not for the man, I wouldn't be able to do the things that I do." My rebuttal to that was, "But you have to understand something. If it wasn't for you he wouldn't be able to do the things he does also," and my father said, "Yeah, but you've got to understand something, he's a greedy MF."

So, you want me to continue along the lines of how the money—OK.

Senator KERRY. Where did the money go?

Mr. BANNISTER. OK. Well, I would assume——

Senator KERRY. I do not want you to assume. Just what do you know?

Mr. BANNISTER. OK. I don't know where the money went. I don't know where the money went, but my father left with the money.

Senator KERRY. He left with the money.

Mr. BANNISTER. Yes, a couple of days after that he gave me $100,000 in cash to deposit into a bank account, one of his bank accounts, and, you know, it was still the $1,000 wrappers around it.

Senator KERRY. Did you do that? Did you—$100?
Mr. BANNISTER. A hundred——
Senator KERRY. They were $100 denominations?
Mr. BANNISTER. Wrappers? Yes, I believe so, yes.
Senator KERRY. $100?
Mr. BANNISTER. Yes, I believe so.
Senator KERRY. OK. And you deposited the $100,000 into your father's account?
Mr. BANNISTER. Into one of his particular accounts.
Senator KERRY. At some point later did you take $20,000 out of that account yourself?
Mr. BANNISTER. Yes, but not at one time.
Senator KERRY. You began to draw on it?
Mr. BANNISTER. Yes, I forged checks and I drew on it, because I had a pretty good situation inside that bank.
Senator KERRY. I have other questions, but I want my colleague to take over here for awhile, and then I will come back to some of the others.
Mr. BANNISTER. OK.
Senator MCCONNELL. The accounts to which you referred, how much money would you estimate flowed through those accounts, say, during the past 5 years?
Mr. BANNISTER. During the past 5 years?
Senator MCCONNELL. Yes.
Mr. BANNISTER. Not much during the past 5 years.
Senator MCCONNELL. During the period you were referring to earlier, how much money flowed through those accounts?
Mr. BANNISTER. From like 1978 to 1981?
Senator MCCONNELL. Yes.
Mr. BANNISTER. I would have to say close to $15 million.
Senator MCCONNELL. Close to what?
Mr. BANNISTER. Fifteen.
Senator MCCONNELL. Million?
Mr. BANNISTER. Yes, by one means or another. Yes. You see, you have to understand something, Senator McConnell. My father had a lot of different things going at the same. You know, he always had five or six serious projects at the same time.
Senator MCCONNELL. Did you go to Colombia with your father?
Mr. BANNISTER. Yes, I did.
Senator MCCONNELL. And did you meet Carlos Lehder?
Mr. BANNISTER. Yes, I did.
Senator MCCONNELL. After returning to the Bahamas, your father tried to retrieve a bracelet that Lehder apparently——
Mr. BANNISTER. A necklace.
Senator MCCONNELL. A necklace?
Mr. BANNISTER. Yes.
Senator MCCONNELL. That Lehder apparently had sent as a gift. Would you describe that gift and tell us roughly the value of it and——
Mr. BANNISTER. I don't know. I never saw it.
Senator MCCONNELL. What it was for?
Mr. BANNISTER. I never saw it, but Joe's estimation if the gift was a $250,000 necklace.
Senator KERRY. Let me just interrupt you. When you say Joe——

86-477 O - 88 - 2

Mr. BANNISTER. They refer to Carlos as Joe, but his name is Carlos Enrique Rivas Lehder.

Senator MCCONNELL. For whom was the gift?

Mr. BANNISTER. It was for the first lady, for the prime minister's wife.

Senator MCCONNELL. Lady Pindling?

Mr. BANNISTER. Yes.

Senator MCCONNELL. What else happened on your trip to Colombia during which you met with Lehder?

Mr. BANNISTER. Well, they talked of the fact that the cay that he owned, Norman's Cay was closed. My father mentioned it to him. He said, well, their opening was, when my father came into—we came into the complex, he was building a village, a resort, and it was just about finished, just about finished, but when we came into one of the complexes on the resort his first remark was, "Everett, what is going on? You all have stopped my business in Norman's Cay."

My father replied to him, he said, "Well, that didn't seem to make a difference to you because now you are running it through the Berry Islands." They started laughing amongst each other. And he said, "Because of you we have to change commissioners of police on the island"—he said, "Because of you we have to change police commissioners once a month." So, they laughed about that.

At that point they asked me to leave the room, and I went around the complex walking around, so they had private talks, but basically what their talks were about was about the attempt that he made on Norman Solomon's life, to kill him because he didn't appreciate how Norman Solomon, who was an MP at that time in politics in the Bahamas, he didn't appreciate how Norman Solomon depicted his people as being animals, and my father said, "Well, you should have killed him."

He talked about the fact that Nigel Beaux had requested of him about a week prior to our visit to either release $60,000 or $600,000 so that he could get Norman's Cay back open again. He said he did it and he didn't get it back open. My father's remark to him was, "Well, you know, Nigel can't get Norman's Cay back open for you because Nigel didn't have it closed." And my father said, "Furthermore, Nigel is ripping you off, Joe." And he said, "I know Nigel is," he said, "but the day that I have positive proof I will take him off the population count."

Then they also had more private talks when we went up to his house. He took us to an expensive jewelry store and we got jewelry. My father got a gold watchband to go with his watch that he had from Tiffany's from many years ago. He got some emeralds to give to someone. It wasn't my mother. And I got a gold bracelet.

And then they made—he made some type of arrangements. My father told me on the way back that he was supposed to pick up from $25,000 to $30,000 in Miami, when we got back to Miami, because he and Carlos had decided that it was best, instead of two black men coming through customs in Colombia with money it would be better once we get to Miami, because my father could control his customs situation in the Bahamas. You know, he could control that. My father could walk through there with money in

every pocket and there wouldn't be a problem once they were in the Bahamas.

When we got back to Miami—oh, I should also mention that while we were waiting for our Avianca flight in Bogota we were stopped and searched by an inspector, the police physically searched us, took us in the room and physically searched us because they said that the person who brought us to the airport was a known drug trafficker. Of course, they didn't find anything because we didn'thave anything.

So, when we got to Miami on our way to the Ionosphere Club, which is a club in the Eastern Airlines part of the airport, we stopped and my father made a phone call. The person who he spoke to didn't speak English at all, so I got on the telephone and tried in very crude, broken English—broken Spanish to explain, and it didn't work. So, apparently she put someone on the phone who spoke English. My father spoke to him, and when he got off the telephone, he said, we had to wait about 45 minutes.

So, we went into the Ionosphere Club. We went in and we sat down. In about approximately half an hour to 45 minutes, someone came with a brown valise, a woman, kind of short, maybe a little chubbyish, with reddish hair, came with a brown valise. At no time did I see what was in the brown valise. But I—well, I shouldn't say I suspect. At no time did I see what was in the brown valise, but being the type of man that my father is, it had to have been that money that he was talking about.

Senator MCCONNELL. Had your father then dealt with Lehder before the trip to Colombia?

Mr. BANNISTER. From my understanding——

Senator MCCONNELL. Had he had prior dealings?

Mr. BANNISTER. Yes. You see, you have to understand, Senator McConnell, I was—Carlos Lehder was unbeknownst to me. I didn't—I had heard the name maybe once or twice prior to that. I had never—I had never pried into who he was because I had my own little drug haven working right in my back yard. My back yard was my own island of drugs, because they would come and just bring it to me, so I didn't, you know, I was—I was not—I was not involved with the outer islands. I was not involved in who Carlos Lehder was. It didn't make a difference to me who he was. But I had heard my father talk about this gentleman who he went to see in Freeport. My father talked about it in amazement. This guy had about eight different passports. And he walked through customs just like you or I would.

Senator MCCONNELL. So, it was obvious your father had had prior dealings with him?

Mr. BANNISTER. Apparently, because also as I recall now on our way down to Colombia I was trying to pry into really what my father was—what we were going there for, because at least if I was going to die at least I wanted to know why, you know.

Senator MCCONNELL. Why did he take you along?

Mr. BANNISTER. That is a good—well, he told my mother for his protection. I don't know what protection I could be, because Carlos was a man who traveled with four armed guards in a Jeep in front of him with M-16's and four in a Jeep in back of him with M-16's.

So, I don't know what protection I would have been. I would have just been another one they would have killed if——

Senator McConnell. Regardless of what he told your mother, why do you think he took you?

Mr. BANNISTER. Well, my father and I have always had a thing with each other where he could discuss things with me, I could give him my ideas irregardless of how we feel, and I wouldn't care how he accepted what I said, and maybe—I would hope that possibly he let me be privy to certain things for such a day like this, to when it had to be spoken, I would hope that is the case.

Senator MCCONNELL. When your father returned to the Bahamas, did he continue to deal with Lehder?

Mr. BANNISTER. Yes, over—for about 3 to 4 weeks Carlos and him were in constant contact. Carlos had an office in Bogota. They were in constant contact. But I would like to go back a step to finish what I was saying to you that I was prying with my father on why we were going to Colombia. My father said to me—because I think this is important. My father said to me that—he said, "Well, me and Joe have got to settle some old business first before we talk about anything new. OK?"

Now, back to your question. For about 3 or 4 weeks they were in constant contact after we came back from Colombia, because Carlos was very, very incensed over this necklace situation. And I think it was really over principle. I think at that point he had gotten fed up over being like a pingpong ball between people in the Bahamas. So, he was very incensed, and they were constantly—see, the necklace was in the hands of either George Smith or Nigel Beaux. George Smith is a member of parliament. As a matter of fact it was given to George Smith.

Senator MCCONNELL. Tell us who Nigel Beaux was.

Mr. BANNISTER. Nigel Beaux is—was Carlos Lehder's lecherous lawyer, I would say. And the bracelet was give to George Smith because George Smith was a member of parliament for the Exuma Cay for Georgetown, where Norman's Cay is located. It was given to him and it was supposed to be given to Lady Pindling.

Lady Pindling refused it, and then it became a situation of, well, what cup is the ball under. My father would go to George, and George would say he gave it to Nigel. My father would go to Nigel and Nigel would say George got it. And so it got to a point where one day the same two pilots who took us from Bogota to Cali and then to Amena to see Joe came into our office with another man who they listed as a navigator—I doubt very seriously that he was a navigator. So, they made it known that they came to see about the bracelet, the necklace, but they also bought eight passports for my father to get visas for certain Colombians to go to the Bahamas and to the United States.

But they were really adamant about this necklace, so my father said, "Well, you know, I am trying to work it out." And my father really did honestly try to work it out, because several times I went with him to George Smith's house, Minister Smith's house, and my father sat down with him really and one time emphatically said to him, "George, you have to really, really, really understand this," and my father, I can honestly say this in the eyes of God, that he really tried to locate this necklace, because my father said to him,

he said, "George, you have to really, really understand that this necklace has to be returned," and my father made it explicit, "You have to understand that this necklace has to be returned." Well, it was still—the pingpong game still kept going on.

Senator MCCONNELL. Did it ever get solved?

Mr. BANNISTER. I don't know.

Senator MCCONNELL. Did Lehder get his——

Mr. BANNISTER. No, but I know that—I beg your pardon?

Senator MCCONNELL. Did Lehder get his problem solved?

Mr. BANNISTER. I don't know. I know that my father was able to—my father tried to pacify the pilot and the so-called navigator, but the navigator said, "Listen, we came for the necklace, Joe sent us for the necklace, and that is what we have come for, the necklace, plus the eight passport situation," but they came mainly for the necklace, so my father got Joe on the telephone and apparently my father pacified Joe in some shape or form that Joe said, "OK, leave the passports and come back." I don't think the bracelet was ever—the necklace was ever recovered. I don't know.

Senator MCCONNELL. Was that the last of your knowledge, then, of Lehder's involvement in the Bahamas?

Mr. BANNISTER. Of Lehder's involvement in the Bahamas?

Senator MCCONNELL. Yes. You don't know anything after that?

Mr. BANNISTER. Well, I know that my father did make another trip to Colombia.

Senator MCCONNELL. Oh, he did?

Mr. BANNISTER. Yes, and I think Nigel Beaux was with him at that time. I am not sure. But I know my father did make another trip back to Colombia after that. And then, see, you have to understand, that is when I started to drift away from my father. My drug habit got enormous, so——

Senator MCCONNELL. OK, one final line. Did your father have anything to do with the departure of the charge at the American Embassy, Mr. Antipas?

Mr. BANNISTER. I cannot say that positively. I can only say that a communique was intercepted by some contact that the prime minister had here in the United States, and I saw the communique. The prime minister gave it to my father. And I can't remember verbatim exactly what was said, but I know that it was along the lines of, "We think that Everett Bannister's telephone lines, lines of communications should be scrutinized. We think that he should be watched very carefully. We think that all his movements should be scrutinized very heavily. And we also feel that we should consider extradition."

Probably, possibly, maybe about a week after that—I don't even think Antipas had time to pack his bag. I think he left all his stuff in his desk. He just—just was gone.

Senator MCCONNELL. So, your judgment is that your father did have something to do with that?

Mr. BANNISTER. My judgment?

Senator MCCONNELL. Yes.

Mr. BANNISTER. Yes. My knowledge of it, I don't have.

Senator MCCONNELL. It is your surmise then?

Mr. BANNISTER. Pretty much so. I would bet my money and borrow money from a loan shark also.

Senator MCCONNELL. Mr. Chairman, go ahead.

Senator KERRY. Let me just follow up on that for a minute. You saw the cable?

Mr. BANNISTER. Yes, I did.

Senator KERRY. And you know specifically that your father complained to the prime minister; do you not?

Mr. BANNISTER. My father got it from the prime minister.

Senator KERRY. And they discussed this? You are aware of that?

Mr. BANNISTER. Well, apparently they must have.

Senator KERRY. What happened after that?

Mr. BANNISTER. Well, after that it wasn't long after Antipas was gone.

Senator KERRY. Well, how soon?

Mr. BANNISTER. I can't really, really recall, but it was quickly.

Senator KERRY. You described it to be me earlier, you said you do not even think he had time to pack his bags.

Mr. BANNISTER. No, I don't. That might have been—that might have been an exaggeration on my part. But that was only in an attempt to explain to you the quickness of him leaving.

Senator KERRY. Did your father warn Carlos Lehder that police raid on Norman's Cay?

Mr. BANNISTER. Yes.

Senator KERRY. Do you want to describe that?

Mr. BANNISTER. Well, as I recall, he just made a phone call to Carlos letting him know, well, the police are going to——

Senator KERRY. You heard the phone call?

Mr. BANNISTER. I beg your pardon?

Senator KERRY. You heard the phone call?

Mr. BANNISTER. Oh, yes, yes, yes.

Senator KERRY. What did he say?

Mr. BANNISTER. You see, you have to understand, my father had a private line, and most of the time I answered it, and at certain times when my father would call Carlos I would do the calling and then my father would get on the line.

Senator KERRY. Did your father have a number of phone contacts with Carlos Lehder?

Mr. BANNISTER. In the 3- to 4-week period that I know of, yes.

Senator KERRY. Regarding——

Mr. BANNISTER. Carlos would call and say he is Giamo Gomez, and Giamo Gomez is a real live person who I met in Colombia. Matter of fact, he is the gentleman who took us to Colombia.

Senator KERRY. What was the substance of those conversations? Was drugs part of the discussion?

Mr. BANNISTER. Not really. Apparently the discussions was based around whatever private talks they had, because my father is a person who is very paranoid about the telephone, even though he has millions of them, but he is very paranoid about them. Their conversations was based on apparently prior talks that they had had while we were in Colombia, which I was not privy to. I don't know. But I know my father did call him one time and told him, "Listen, the police are going to aid Norman's Cay on a certain day, clean it up." And when they went there, they didn't find—they didn't find—I don't even think there were people there. I don't know. They didn't find anything.

Senator KERRY. And—all right. Now, what about Nigel Beaux? What was his relationship to the prime minister?

Mr. BANNISTER. I have no idea.

Senator KERRY. Do you know whether—do you have an opinion as to whether or not Nigel Beaux will be extradited?

Mr. BANNISTER. I wish he would be, personally.

Senator KERRY. Why is that?

Mr. BANNISTER. Because he is a greedy, lecherous, unscrupulous individual.

Senator KERRY. But what do you know about whether or not he might be extradited? Do you think he will be extradited?

Mr. BANNISTER. That is a rough one to call, Senator Kerry, because to extradite him, even though he should be, would start a very dangerous precedent for the Bahamas, because there are a number of people that are under extradition. And I think if he is extradited first, I think my father should pack his bag because he would be next.

Senator KERRY. Now, do you know specifically—let me come back to the conversation. You mentioned something about Norman Solomon and an attempt to kill him or something.

Mr. BANNISTER. Yes.

Senator KERRY. When you were down in Colombia with Carlos Lehder and your father——

Mr. BANNISTER. Yes.

Senator KERRY [continuing]. Do you want to describe that discussion in a little greater detail?

Mr. BANNISTER. OK, that——

Senator KERRY. How did the subject of Norman Solomon come up?

Mr. BANNISTER. Well, they were just kicking around—in his car. We were in his car.

Senator KERRY. Let me go back for a minute. Norman Solomon was a member of parliament.

Mr. BANNISTER. Norman Solomon is an opposition member, but he was a member of parliament at that time.

Senator KERRY. Correct. And Norman Solomon was very disturbed, was he not, about drug trafficking on Norman Cay?

Mr. BANNISTER. Yes, he was. As a matter of fact, he was one of the first ones to actually uncover it.

Senator KERRY. And Norman Solomon actually went to the authorities to try to get them to do something about it; didn't he?

Mr. BANNISTER. Yes, he did.

Senator KERRY. Norman Solomon went to United States authorities as well as Bahamian; did he not?

Mr. BANNISTER. That I don't know. I don't know if he went to U.S. authorities.

Senator KERRY. And what then took place? What happened to Norman Solomon?

Mr. BANNISTER. Well, one day his house and his car was blown up.

Senator KERRY. With a bomb?

Mr. BANNISTER. Yes.

Senator KERRY. OK.

Mr. BANNISTER. Unfortunately, he wasn't there.

Senator KERRY. What was the discussion with Carlos Lehder about that incident?

Mr. BANNISTER. Well, we were in his car, and they were just talking about various people in the Bahamas, and Carlos was saying, "Well, you know, you know, Everett, you know, I was behind that bombing of Norman's place, you know, so I really tried to kill him because I didn't like how he depicted my Colombian people as animals." See, you have to understand, Carlos Lehder is a very patriotic gentleman. Or was. And he said, "I didn't like how he depicted my Colombian people as animals," he said, "so, you know, I really tried to kill him." My father said, "You should have," and that was the extent of it.

Senator KERRY. Now, was there any discussion about reopening Norman's Cay?

Mr. BANNISTER. In my presence? No. See, they had several private discussions of their own. The only discussion came where—where he spoke of Nigel calling him, because Nigel apparently had most of his money in the Bahamas, but Nigel obviously had to get permission to use certain moneys.

Senator KERRY. Now, you heard Mr. Garcia testify that he paid your father money in Miami so that he would be taken off the stop list.

Mr. BANNISTER. Yes, I heard that.

Senator KERRY. Do you remember that transaction?

Mr. BANNISTER. I don't remember the transaction exactly. I just know that I was living in Miami at this particular time, for about 6 months. I was working with an insurance company that was interested in opening up captive insurance offshore in the Bahamas, so I went over there for training, and my father came over to my apartment, and he was there for like 3 days, back and forth on the telephone, wondering where this guy is, you know, I'm not used to sitting and waiting for people.

Then one day I dropped him over to an apartment building on Key Biscayne, and when I came back home he was already home, and then he had money when———

Senator KERRY. He had money with him?

Mr. BANNISTER. Yes, when as before he did not.

Senator KERRY. And do you recall seeing that money?

Mr. BANNISTER. Sure. I didn't see $10,000, because my father is not that, you know, he is not like that, you know. He——

Senator KERRY. OK. That is the same apartment building that you recall going to with Mr. Garcia subsequently?

Mr. BANNISTER. Yes.

Senator KERRY. And pointing it out?

Mr. BANNISTER. Yes.

Senator KERRY. Now, when people are caught in the Bahamas for dealing in drugs or helping in the trafficking, do they go to jail?

Mr. BANNISTER. Sometimes. Sometimes. Depending on your status.

Senator KERRY. What does that——

Mr. BANNISTER. You might not even make the jail cell.

Senator KERRY. What does that mean?

Mr. BANNISTER. Depending on your status. But I shouldn't say that. That is wrong, because nowadays the situation is that if they

pick you up for drugs, more than likely you are going to spend some time in the jail cell, because it is so controlled now that they know who is in this particular house at a particular time, because they watch these places. A lot of the people every day get fined for drugs. Not many. Not many go to jail. But a lot of people go to jail as a result of drugs through vandalism, through assaults on women and things like that, so that is a result of their drug use.

Senator KERRY. How recently have you been in the Bahamas?

Mr. BANNISTER. As of April.

Senator KERRY. As of April. And how long were you there for prior to the April period?

Mr. BANNISTER. Prior to the April period? I was there for 7 months.

Senator KERRY. Can you describe the situation with respect to drugs in the Bahamas during the 7 months?

Mr. BANNISTER. Sure I can. Sure. It is a very tense, very volatile situation. As I told you, you can buy drugs on every corner, every—there is a drug dealer on every corner of every street in the Bahamas.

Senator KERRY. Are there more drugs there now than you have ever seen before?

Mr. BANNISTER. Sure, there's people who are giving it away. You can get—you can get—would you like for me to tell you some, give you a little quote of the prices or something?

Senator KERRY. Absolutely.

Mr. BANNISTER. You can get a factory sealed kilo of cocaine still in the bag from Colombia for $2,000 in certain places.

Senator KERRY. And what is the same price for that in Miami?

Mr. BANNISTER. I wouldn't know. I have never bought a kilo of cocaine. Would you like me to find out?

Senator KERRY. No, we can do that. [Laughter.]

Mr. Garcia, what is the price of that in Miami, a kilo of cocaine now?

Mr. GARCIA. It has gone as low as $16,000 a kilo. Right now I believe it is around $18,000 or $21,000. It all depends.

Senator KERRY. So, $16,000 to $18,000 in Miami or $21,000 for an item that is selling for $2,000 in the Bahamas?

Mr. GARCIA. Yes, definitely heard that it goes $3,000, $2000, $3,000——

Senator KERRY. You confirm that lower price in the Bahamas today?

Mr. GARCIA. $3,000, $2,000.

Senator KERRY. Why is that, Mr. Bannister? Why is it so low?

Mr. BANNISTER. Well, that is because of the fact that there is such an influx of drugs into the Bahamas now. I honestly believe, and this could be far-fetched, if I could give you my belief, I honestly believe that when the drug trade became very sophisticated from Colombia, through the Bahamas, I honestly believe that there was so much thievery amongst people who were not really involved in the organization of drugs, that the Colombians took a conscious effort to say, "OK, well, you guys, we pay you all anyway for letting our drugs come through and you still rob our boats anyhow, so we are going to drown you in cocaine. If you like cocaine that

much, we will drown you in it." This is what I firmly believe. And so as a result of that now——

Senator KERRY. In order to prevent the thievery?

Mr. BANNISTER. No, in order to—no, in order to principalize the fact that the transshipment of drugs was something that was made within the organization above all the lower class. It was made by a handful of people who decided that this is how drugs would be transshipped through the Bahamas. But then as a result of Bahamians being very adventurous, they decided that, well, you know, we have got to stop, we have got to take some of this. We just can't let it all go through.

Senator KERRY. Now, in your experience, both dealing with your father as well as recently, are there drugs able to come through partly because officials are letting it come through, or largely because they are letting it come through?

Mr. BANNISTER. OK. I think it started out not partly. I think it was—basically that's the reason why. But now what has happened is, there are so many Bahamians in the majority that have made money off of drugs, have done some positive things in regards to being able to continue their drug operation, that it has gotten out of the hands of higher officials. See, it is very difficult, it is very difficult for an assistant superintendent of police in Nassau to stop what is happening down on one of those cays, because what goes on down on one of those cays goes down on one of those cays until it reaches—the information reaches Nassau. I mean, I have heard of instances where the police were helping fuel planes that had drugs on them. So, you know, it's——

Senator KERRY. And are you aware by personal knowledge what the state of the situation is today, right now?

Mr. BANNISTER. In the Bahamas?

Senator KERRY. Yes.

Mr. BANNISTER. As far drug use?

Senator KERRY. With respect to the flow of traffic, the transshipment.

Mr. BANNISTER. Not from my knowledge, see, because I never was involved with that. All I knew, the furthest my involvement was was the shipment from the back of a guy's car to my house. So, I can't really fairly say. I can say to you that it has destroyed a generation of people in the Bahamas.

Senator KERRY. Were——

Mr. BANNISTER. They have more—excuse me, sir. They have more people in the Sandlins Mental Rehabilitation Center because of drugs than they have of people who are mentally sick.

Senator KERRY. Could the current situation have come about without the cooperation of high government officials?

Mr. BANNISTER. No.

Senator KERRY. Do you know what government officials were involved with your father in facilitating any of the transshipments?

Mr. BANNISTER. No.

Senator KERRY. Do you know of payments made to high government officials by your father?

Mr. BANNISTER. Well, you see, you have to understand something, Senator Kerry. This drug situation, all it did was just take its place or take a spot inside my father's overall situation. See, my

father's overall situation, that he always had people in the police department. He always had people in immigration. Do you understand what I am saying?

Senator KERRY. Yes.

Mr. BANNISTER. He always had people in civil aviation. So, all this drug thing did was fill a slot, you see?

Senator KERRY. Do the interdiction efforts—let me approach that differently. Did your father ever mention to you or did you ever hear discussions about pressure from the United States or concern about the flow of drugs coming from our country?

Mr. BANNISTER. Well, no, not really, but I could say, and this is very paradoxical, because as I say, my father despises drugs and its use, and that is very paradoxical, I know.

Senator KERRY. I understand that. I read your prior transcript, and I know you have said that, but at the same time you do not deny that he worked with Carlos Lehder?

Mr. BANNISTER. I do not deny that he attempted to facilitate certain things for Carlos.

Senator KERRY. Let me just ask you to summarize, if we can. From 1978 until the present moment, you have seen life change in the Bahamas.

Mr. BANNISTER. Drastically.

Senator KERRY. How are the Bahamians responding to that now? What is happening?

Mr. BANNISTER. Well, the Bahamians are responding to it, first of all, with indignation as far as outside help is concerned. Bahamians have a way of protecting their own through anything. It is a terrible situation, and Bahamians who truly, truly believe in God and truly believe in what is right for mankind knows that it has to be stopped by whatever means possible. And those are the Bahamians who have no interest whatsoever in the political aspects of one government or another, because it is a very bad situation when you have little kids, 9 and 10 and 11 years old, selling rocks of cocaine.

You know what I'm saying? If you have $100 you could stay high off of cocaine for about 4 days. That's the amount that they would give you. Women and men prostituting themselves in one form or another. Untold amounts of thievery, which very drug addict runs that cost. Total chaos in the city because you don't know when a crime is going to be.

It's like the city never sleeps. People riding around in cars, at a stoplight taking a hit of cocaine and then driving off. People getting a thrill out of parking right across the street from the prime minister's house in a little grass place and freebasing. It is totally degenerate, and it has gotten way out of hand. It's a detriment to mankind.

Senator Mc Connell. Let me ask, Is your father a U.S. citizen?

Mr. BANNISTER. No longer.

Senator KERRY. I have some other questions, but I think I am going to hold off on them because of the time here. Let me must ask you one other question. Your father has currently entered a period of less close relations with the prime minister. Is that correct?

Mr. BANNISTER. Yes.

Senator KERRY. Do you want to describe that at all?

Mr. BANNISTER. Well, you see, you have to understand, the Bahamian mentality is one, and I love those people, I have—I love those people in general. I should say I like those people in general. You have to understand that Bahamians' attitude is, I am all for what you are doing until you get caught, then I don't know you, and this is the position that my father is in now, and it is a terrible injustice to him. This is one of the main reasons why I have decided to speak out about it, because he has become a victim of the system that he has helped create. There will never be any one man in the Bahamas, I believe, in our lives that will ever have as much power as he had, because I do believe that the prime minister was probably a recipient of every major deal my father made, but not necessarily had the knowledge of every one until after the deal was made.

Senator KERRY. When you say "a recipient," what do you mean?

Mr. BANNISTER. A recipient of whatever the payment was.

Senator KERRY. So, your father was consistently paying the prime minister?

Mr. BANNISTER. All the time. I mean, there would be nothing for the prime minister's son—he is going over to Miami to pick up—because he is a musician. It would be nothing for him to come to the office and get $5,000 from my father. You know, just like, I mean, the Bahamian people felt like my father was obligated to do these things, and my father took on that obligation. That is why he is broke today.

Senator KERRY. And how long has this division existed between your father——

Mr. BANNISTER. Ever since the commission of inquiry. I believe that certain things that have been brought to light to the prime minister naturally, him thinking of his political life probably more than any normal politician would, he probably felt it is time to get rid of my father as best as they could, and my father will never rise again to the power that he has—that he had. He will never rise again, and it is sad because maybe if he had another chance he might do it differently. Maybe he might do it worse. I don't know.

Senator KERRY. Now, when you say this money was flowing freely, did it flow to others other than the prime minister in the government?

Mr. BANNISTER. Oh, sure. I mean, what I'm saying is, it would be nothing for my father for the PLP to have a fundraising, it would be nothing for my father to support that whole fundraising. They would be having dinners and things. It would be nothing for my father to do the catering, because we own a catering company in the Bahamas, which is another big enterprise he had. It was nothing for him to do those things. He felt obligated, and as a matter of fact if the people didn't call him right away he'd call them.

Senator KERRY. Now, it is true, is it not, that millions of dollars were flowing through the Bahamian World Airways and the Bahamian World 1974 Limited——

Mr. BANNISTER. Limited, yes.

Senator KERRY [continuing]. Correct, two different companies?

Mr. BANNISTER. Yes, well, they were two different companies then, but not at the same time, though.

Senator KERRY. But millions of dollars flowed through them even when they were not flying?

Mr. BANNISTER. Certainly.

Senator KERRY. When they were not operating as a bona fide flight company.

Mr. BANNISTER. Yes, because my father and I would say probably at this time today his dream still is to operate a airlines. So, we always had our license. We have still got our license now. We have always had our license.

Senator KERRY. But the millions of dollars were coming through the company and being paid out to people including the prime minister. Is that correct?

Mr. BANNISTER. Yes, but most of the money that came out of those airline accounts that involved any political situation, any sensitive political situation, like possibly the prime minister or someone else connected with him, my father would put it into one of his other bank accounts in another bank, in a private bank account, and he would——

Senator KERRY. And was there some entity that was sold back an forth between your father and somebody three or four times?

Mr. BANNISTER. Well, my father had property in an island called Andrus. It had a hotel on it. It was property that was given—it was property that he bought from Robert Vesco with money that Robert Vesco gave him to buy it, so actually, it was actually a gift. My father sold that about two times to Resorts International. Three or four different times he got money on it from certain politicians in the Bahamas who are no longer politicians. Twice he sold it to European people. I would say approximately about seven times it has been sold. Mr. Crosby and them, you know, bought about three different times.

Senator KERRY. And where did the money go? Do you know? Did you see?

Mr. BANNISTER. Into the accounts. My father tried all he could to keep this airline going. Every dime he got that he didn't give away he dumped into the airline.

Senator KERRY. Well, there is, I might say, an intriguing pattern, which others have been digging into of many of the business transactions. They are not really within the scope of this committee except insomuch as they show a pattern of the kind of transactions that take place in the Bahamas. This also sheds some light on how drug trafficking takes place, and I think we have gotten an adequate sense of that in the course of this hearing, and since that is the true thrust of these hearings, I am going to leave out a lot of those other details, as intriguing as they are.

Senator McConnell, do you have any other questions at this point, or any comments you want to make?

Senator MCCONNELL. No, I do not, Mr. Chairman. Thank you very much. I think this has been a very helpful hearing. I also appreciate the witnesses being here.

Mr. BANNISTER. Thank you.

Senator KERRY. I want to thank the witness, both witnesses for coming. I would ask folks in the audience if you would just to sit tight for a moment so the Federal marshals can escort Mr. Bannister from the room before we all depart, and for the record, it

should show that Mr. Bannister has appeared here under subpoena today.

I thank both witnesses for coming, and all those who cooperated in the effort to have them here.

This hearing is adjourned.

[Thereupon, at 12:15 p.m., the subcommittee was adjourned, to reconvene upon the call of the Chair.]

DRUGS, LAW ENFORCEMENT AND FOREIGN POLICY: CENTRAL AMERICA

WEDNESDAY, JULY 15, 1987

U.S. SENATE,
SUBCOMMITTEE ON TERRORISM, NARCOTICS AND
INTERNATIONAL OPERATIONS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 11:15 a.m., in room SD-419, Dirksen Senate Office Building, Hon. John F. Kerry (chairman of the subcommittee) presiding.

Present: Senators Pell, Kerry, Helms, and McConnell.

Also present: Jack A. Blum, special counsel.

Senator KERRY. This hearing will come to order.

My apologies for the delay.

This is a continuing series of hearings regarding allegations that have been made not only about drug trafficking which may or may not have assisted the Contras, but also about broader aspects of drug trafficking as they may or may not have come to affect and impact American foreign policy and, indeed, the internal policies of other countries in ways that have come to affect the interests of the United States.

So, not only are we looking at the question of pursuing those issues which have arisen about whether or not Contras received financing through narcotics trafficking, but we are looking at a much broader series of implications which affect our relationship with a number of countries in Central and Latin America.

This committee is trying to determine whether or not there are any steps which we can take, which may or may not be appropriate, in the effort to try to fashion policy, which can have an impact on lessening the degree to which narcotics may have become an important political force in the world and an international force in the world.

There is an old saying in trial law that "When you try the Devil, you don't go to heaven for your witnesses." To a certain degree, in trying to prove cases regarding the flow of narcotics and how it may or may not have impacted foreign policy and other issues, we must, by necessity, turn to witnesses who have been involved in narcotics trafficking. All of us on this panel and everyone in the public has to obviously to exercise his own judgment about credibility, test that credibility, and make determinations about whether or not they think the witnesses have a motive for telling the truth,

are telling the truth, and to what degree their stories can be corroborated.

By necessity, because these hearings have only so many hours at a time and are spaced with the normal workings of the Senate and of this committee, the Committee of the Whole, the Foreign Relations Committee, we can't put the whole story in front of you in one instant.

So, we are building, really, a mosaic, which must be looked at in the total. We caution folks to make judgments about this witness, other witnesses, and other information which may or may not flow from the committee in the light of that larger mosaic.

I don't want to take more time now.

We are turning to a witness who is here, again, under Federal protection, currently serving time. We will try as hard as we can to ask questions that elicit as well as possible the ability to be able to make judgments about that witness' credibility.

Let me turn to my colleagues to see if they have any opening statements at this point in time.

Jesse.

Senator HELMS. No, thank you, John.

Senator KERRY. Mitch.

Senator MCCONNELL. No, Mr. Chairman. I really have nothing to add other than to thank you, once again, for holding these hearings, and we look forward to hearing from the witness about what apparently is a terribly devastating problem. To the extent that this drug trafficking is having a direct impact on America's relationship with countries in this hemisphere, we need to know about it.

We look forward to hearing from Mr. Morales.

Senator KERRY. Would you please stand, Mr. Morales.

Would you raise your right hand, please.

Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. MORALES. Yes, I do.

Senator KERRY. Would you be seated again, please.

STATEMENT OF JORGE MORALES, CONVICTED DRUG SMUGGLER, MIAMI, FL; ACCOMPANIED BY SHELDON YAVITZ, ESQ., AND RON B. SCHMIDT, ESQ., MIAMI, FL, COUNSEL TO MR. MORALES

Senator KERRY. Would you state your full name for the record, and if you could pull the microphone right up close to you and speak clearly into it, that would be helpful.

Mr. MORALES. OK. George Morales.

Senator KERRY. Where were you born, Mr. Morales?

Mr. MORALES. I was born in Colombia.

Senator KERRY. When were you born there? Your date of birth?

Mr. MORALES. 1948.

Senator KERRY. And are you now an American citizen?

Mr. MORALES. Yes, I am.

Senator KERRY. When did you become an American citizen?

Mr. MORALES. Late 1970's or early 1980. Late 1979 or early 1980.

Senator KERRY. What is your Social Security number?

Mr. MORALES. It's 261-27-3552.

Senator KERRY. And your prison number at this point in time?
Mr. MORALES. It's 08662-016.
Senator KERRY. Could you repeat that one?
Could you pull the microphone a little closer.
Mr. MORALES. OK.
You said—can you repeat the question again, please?
Senator KERRY. Your prison number.
Mr. MORALES. It's 08662-016.
Senator KERRY. Where are you incarcerated?
Mr. MORALES. In MCC, Miami.
Senator KERRY. And how long have you been incarcerated?
Mr. MORALES. For 13 months.
Senator KERRY. You're currently serving a sentence of what period of time?
Mr. MORALES. I'm serving two sentences now, Mr. Chairman.
Senator KERRY. What are the two sentences?
Mr. MORALES. The one that I was convicted for, CC and cocaine smuggling, and also the one for the contempt charge.
Senator KERRY. Contempt charge?
Mr. MORALES. Yes.
Senator KERRY. Well, we'll come back to the contempt charge later.
Your cocaine trafficking conviction is for what period of time?
What is your sentence?
Mr. MORALES. I was sentenced to 16 years in jail.
Senator KERRY. Sixteen years.
Last week—or not last week—last month, were you offered immunity before a Federal grand jury to tell your story?
Mr. MORALES. Yes, I was.
Senator KERRY. And at that time, did you tell your story?
Mr. MORALES. No, I did not.
Senator KERRY. And you were given a contempt citation at that time?
Mr. MORALES. Yes, I was.
Senator KERRY. But you have reserved your willingness to tell that story; is that correct?
Mr. MORALES. I was willing to tell the story, not at precisely that moment. I didn't have no notice of appearance, I had none of my notes with me. Even though I was willing to do it, they hold me in contempt.
Senator KERRY. Let me ask this. I'm having a little trouble hearing. I wonder if it's possible to turn the microphone up a little bit.
Would you pull the microphone up very close.
Mr. MORALES. OK.
Senator KERRY. Could you repeat that.
Mr. MORALES. That I was willing to testify, but not at that moment.
Senator KERRY. Not at that time?
Mr. MORALES. Yes.
Senator KERRY. Now, in coming here, have you been offered immunity by this committee?
Mr. MORALES. No, not whatsoever.
Senator KERRY. Have any promises been made to you in exchange for your testimony by this committee?

Mr. MORALES. Not that I know of it.

Senator KERRY. Have you met, or your attorney—let me just, for the record, would you identify yourself, counsel?

Mr. YAVITZ. Yes, thank you.

My name is Sheldon Yavitz and my office is in Miami, FL.

Seated at my left is Ron Schmidt, my associate.

Senator KERRY. And you are currently representing Mr. Morales?

Mr. YAVITZ. That's correct.

Senator KERRY. How long have you been representing him?

Mr. YAVITZ. Since March 1987.

Senator KERRY. Have you ever met any of the Senators here on this panel prior to today?

Mr. MORALES. No.

Senator KERRY. When was the first communication from anyone on any of our staffs to you?

Mr. MORALES. The first time I talked about this matter was with Mr. Jack Blum, the gentlemen on the left, on your right side. That was about this year, at the beginning of this year, I believe.

Senator KERRY. Now you understand as we begin this testimony, Mr. Morales, that, in addition to the sentences you are currently serving, that if you don't tell the truth, you could be subject to penalties of perjury?

Mr. MORALES. Yes, I do.

Senator KERRY. I'm going to interrupt.

Rather than go into several areas of inquiry, Senator Helms has an engagement that he has to be at and has some specific questions he wants to ask. To make certain that he does, rather than begin my introductory inquiry, Senator, why don't I turn this over to you at this point, and then we'll come back.

Senator HELMS. Mr. Chairman, that's very kind of you and I appreciate it. I will be as brief as possible.

Most of my questions can be answered yes or no.

Mr. Morales, to the best of your knowledge and recollection, was Eden Pastora aware of the drug activities of Mr. Cesar and Mr. Chammoro?

Mr. MORALES. Not that I know of.

Senator HELMS. You don't know that he was aware?

Mr. MORALES. I do not know.

Senator HELMS. Did you ever discuss drug dealing with Eden Pastora?

Mr. MORALES. Never.

Senator HELMS. Never.

Did you ever launder money in Panama?

Mr. MORALES. Yes, I did.

Senator HELMS. I would like for you to tell the committee as briefly as may be possible the extent of the money laundering in Panama, and how did you go about it. And were any government officials involved in the money laundering in Panama?

Mr. MORALES. I get the money in the briefcase, take a plane, a personal plane, a private plane——

Senator KERRY. Can you pull the mike closer again?

Mr. MORALES. Yes, let me do it this way—and I fly to Panama.

I would meet these guys who work for the government, and they will take care of the situation with customs, and immigration people, the authorities, and the airport.

That's all.

Senator HELMS. Were you given protection or escort?

Mr. MORALES. Sometimes. If you require it, they will do it.

Senator HELMS. By whom?

Mr. MORALES. By the bank.

Senator HELMS. By the bank?

Mr. MORALES. The bank would make the arrangements, yes.

Senator HELMS. The government was never involved in that?

Mr. MORALES. I don't know what you mean by "the government." I mean, officials?

Senator HELMS. The police.

Mr. MORALES. Yes, they are.

Senator HELMS. The police were involved?

Mr. MORALES. Yes, they were.

Senator HELMS. To what extent and how?

Mr. MORALES. To the extent to safety, to take care of any problems about getting the money inside the airport and getting the money outside of the airport to the city.

They were paid for, if you want to call it that way.

Senator HELMS. How did you arrange with the police for this service?

With whom did you deal?

Mr. MORALES. I take the, like I told you, I take the money in the briefcase, I fly over there, previous phone call has been made, and the official over there will wait for me at the airport, and he will take care of all the situation.

Senator HELMS. Excuse me just a moment. [Pause.]

Mr. Morales, I'm having difficulty hearing you. I was checking to see if I've gone deaf.

This sound system in this room is very poor, and I hope, Mr. Chairman, that you and I can solicit a little bit of help from the Senate in that regard, because I just can't hear.

Now, excuse me.

Did you identify any specific person with whom you dealt? I couldn't hear.

Mr. MORALES. Excuse me one second.

Senator HELMS. Sure. [Pause.]

Mr. MORALES. Upon advice of my counsel, I shouldn't disclose any name in public now. I will not hesitate to do it in a closed session, if you don't mind.

Senator KERRY. Let me just say with the witness that the one agreement we have made is that in a few cases, because of risk of life and other things, we are going to hear those names, and we're going to take them in executive session. At the end of this, we will take those names in.

Senator HELMS. Have you ever traveled to Cuba?

Mr. MORALES. Yes, I am—I was—I did, I'm sorry.

I did.

Senator HELMS. Were you involved in any drug activities or money laundering in Cuba?

Mr. MORALES. Yes, I was.

Senator HELMS. Will you describe your involvement?
Mr. MORALES. With the drugs or with the money? [Laughter.]
Senator HELMS. What was that?
Senator KERRY. With the drugs or with the money.
Senator HELMS. Both.
Mr. MORALES. I used to fly to this part of Cuba, a city by the name of Cayo Largo. It's an island in the south of Cuba, a little island in the south of Cuba, who belongs to the Cuban Government.
I used to take money to this particular island, and they kept the money and will transfer the money in any bank that I wanted the money to be transferred, with the charge of $10,000—I mean, I'm sorry—10 percent of the amount of money.
In my drug relations with the Cuban Government, I used to fly over their airspace with a special code allowing my plane to go through, on top of Cuba, to save the time that I would have had to go around Cuba.
Do I explain myself correctly? Do you understand?
Senator KERRY. Did you understand that?
Senator HELMS. Fairly well.
Did you deal with the police or any other representatives of the government in Cuba in terms of protection and facilitating the laundering of the money?
Mr. MORALES. Yes, I did.
Senator HELMS. I guess, Mr. Chairman, I ought not to ask for them to be identified in open session. But we will get to that in executive session.
Let me go back to Panama.
I'm going to ask you the same questions about Panama and about Cuba.
Do you have any estimate of how much money you laundered in Panama, totally, over the entire period of your involvement?
Mr. MORALES. Millions of dollars.
Senator HELMS. Millions of dollars?
Mr. MORALES. Yes.
Senator HELMS. How about Cuba? The same thing?
Mr. MORALES. No, not that much.
Senator HELMS. Not that much.
Mr. MORALES. No.
Senator HELMS. Do you have any estimate? We won't hold you to the precise amount.
Mr. MORALES. Probably half a million dollars.
Senator HELMS. Half a million dollars?
Mr. MORALES. Probably, yes.
Senator HELMS. So, obviously you had more involvement in Panama than you did in Cuba.
Mr. MORALES. Yes, about money laundering.
Senator HELMS. Over a longer period of time in Panama.
Mr. MORALES. Let me make myself clear about it.
I used to take money to Panama and deposit it in accounts, banks, and later on transfer it to some other accounts in the Bahamas.
Senator HELMS. Now I think what you have said and are saying is that Cuba allows for safe haven for drug traffickers for their boats or for their aircraft.

Mr. MORALES. Yes, they do.

Senator HELMS. Are you aware of any Cubans growing marijuana or processing such narcotics as cocaine or heroin on the island of Cuba?

Mr. MORALES. Some of the planes that are confiscated with drugs are sometimes, to my knowledge, directed to me, I was offered to buy the marijuana.

Senator HELMS. How about surrounding islands? The same answer?

Mr. MORALES. I don't know. I don't understand your question.

Senator HELMS. Surrounding islands, islands surrounding Cuba.

Mr. MORALES. That belongs to Cuba?

Senator HELMS. Yes.

Mr. MORALES. Yes.

Senator HELMS. OK.

Mr. Chairman, I'm going to stop here because I know that you're going to be asking about the same questions that I would ask, and I thank you for your courtesy.

I'll be back as quickly as I can.

Senator KERRY. Thank you, Senator.

Mr. Morales, I'd like to go back and begin at the beginning a little and lead up through the process, if we can.

I'd like to ask some introductory questions, if I may.

When did you first become involved in drug trafficking?

Mr. MORALES. Around 197——

Senator KERRY. Again, let me just ask you to try to speak very clearly and slowly. Don't worry about taking time. We want to understand what you're saying.

Mr. MORALES. To my best of my knowledge, my recollection, it was around 1978–79.

Senator KERRY. Prior to 1978 or 1979, what were you doing?

Mr. MORALES. I used to have a company, construction companies, general contractor company, painting, union companies.

Senator KERRY. Are you married?

Mr. MORALES. I'm divorced right now.

I am divorced right now.

Senator KERRY. At the time you were married?

Mr. MORALES. Yes.

Senator KERRY. Do you have children?

Mr. MORALES. Yes.

Senator KERRY. How many children?

Mr. MORALES. I have two children.

Senator KERRY. And in 1978, you were in your construction business; is that correct?

Mr. MORALES. Yes.

Senator KERRY. At that time, were you also a speedboat racer?

Mr. MORALES. I beginning to do my career, if you want to call it that way, about speedboat racing.

Senator KERRY. You took speedboat racing very seriously; didn't you?

Mr. MORALES. Yes, I did.

Senator KERRY. And you won an international championship?

Mr. MORALES. I won several of them.

Senator KERRY. And do you also hold a world's record in speedboat racing?

Mr. MORALES. I hold about probably six, that I know.

Senator KERRY. Six world records.

Mr. MORALES. In the Guinness Book, yes.

Senator KERRY. What are those records?

Mr. MORALES. I hold the fastest boat in the kilo run, in open class. That was in 1983.

I also hold the record of the most prestigious races in the world, which is the Hunt World Trophy, two races in——

Senator KERRY. What is that trophy for?

Mr. MORALES. To be the winner of two races in London, in England, and two races in the United States.

Senator KERRY. Now how in 1978 or 1979 did you first become involved in drug trafficking?

Mr. MORALES. Because of my boats, boat driver abilities. Because of my boat driver's abilities, you know.

Senator KERRY. Your boat driver's?

Mr. MORALES. Yes.

Senator KERRY. Are you also a pilot?

Mr. MORALES. I know how to fly. I don't have no license, no.

Senator KERRY. Were you also in the air cargo and air charter business?

Mr. MORALES. Yes, I was.

Senator KERRY. When did you go into that business?

Mr. MORALES. In 1980.

Senator KERRY. Can you describe that business to us?

Mr. MORALES. I bought the company, the company by the name of Aviation Activities, out of Opalaca Airport.

Senator KERRY. Where is that airport?

Mr. MORALES. In Opalaca, FL.

I used to have my office in building 415, next door to hangar 1.

Senator KERRY. What kind of aircraft did you have?

Mr. MORALES. I have several aircraft.

I have cargo aircraft, Lear jets, Piper Aztec, Cessna. I have helicopters.

Senator KERRY. How many helicopters?

Mr. MORALES. I had two helicopters.

Senator KERRY. Were there several corporations?

Mr. MORALES. Yes.

Senator KERRY. What were the names of the corporations?

Mr. MORALES. Leasen Activities.

Senator KERRY. Can you spell that?

Mr. MORALES. L-e-a-s-e-n Activities. Leasen.

That company was in charge of the Lear jets charters.

Senator KERRY. How many Lear jets?

Mr. MORALES. Oh, I have many of them. I mean, some of them belonged to the company, some of them did not belong to the company.

Senator KERRY. Were the Lear jets used in the drug trafficking?

Mr. MORALES. No.

Senator KERRY. What was the other leasing corporation, or the other corporation?

Mr. MORALES. Aviation Activities.

Senator KERRY. What kind of aircraft did that handle?

Mr. MORALES. I handled Piper, Navajo Panther, handled Cessna 402, a 210, Cessna 210.

Senator KERRY. Do you remember the tail numbers of those aircraft?

Mr. MORALES. Some of them, yes, I do.

Senator KERRY. Were those aircraft used in drug trafficking?

Mr. MORALES. Yes.

Senator KERRY. What were the tail numbers on those aircraft?

Mr. MORALES. Noviembre—November, I'm sorry—November 114 Sierra Whiskey. That was a 402.

Senator KERRY. That's a Cessna 402?

Mr. MORALES. A 402 Cessna. November 811 Hotel Whiskey. That was a Navajo Panther.

November 851—I forgot the last number—Yankee—that was an Aztec.

Senator KERRY. A Piper Aztec?

Mr. MORALES. Piper Aztec.

A DC-3, I have about probably six or seven DC-3's.

Senator KERRY. Were each of those aircraft used in drug trafficking?

Mr. MORALES. Most of them, yes.

Senator KERRY. And will you be able to make available to this committee the documents regarding those aircraft?

Mr. MORALES. Yes, I will.

Senator KERRY. Would the FAA have records of flights in and out of that airport, if they were international flights?

Mr. MORALES. Yes, they have.

Senator KERRY. Did you file those flights appropriately?

Mr. MORALES. Some of them they did, I did.

Senator KERRY. Even when they were carrying drugs?

Mr. MORALES. Even when they carried drugs and guns.

Senator KERRY. We'll get into guns later.

Did they also file flight plans in the other countries to which they flew?

Mr. MORALES. Some of them, yes.

Senator KERRY. Was that true of Costa Rica?

Mr. MORALES. It is true.

Senator KERRY. Was that true of Colombia?

Mr. MORALES. They did not fly—yes, they did.

Senator KERRY. Filed a flight plan?

Mr. MORALES. Yes.

Senator KERRY. OK.

Did you record your tail numbers accurately on those flight plans?

Mr. MORALES. Yes.

Senator KERRY. Or did the pilots?

Mr. MORALES. Yes, yes.

Senator KERRY. Now who encouraged you to make the switch from smuggling marijuana to smuggling cocaine?

Mr. MORALES. The whole process became, in 1984, right after I got indicted, in the CC indictment, the A-48 indictment.

Senator KERRY. Before we get there, between 1978 and 1979 and 1983, you were trafficking drugs.

Mr. MORALES. Marijuana.
Senator KERRY. Were you also trafficking cocaine?
Mr. MORALES. Only one time.
Senator KERRY. Only one time?
Mr. MORALES. Not directly.
I lent a plane.
Senator KERRY. And the marijuana you were then trafficking was coming from where?
Mr. MORALES. The marijuana I was bringing into the United States belonged to myself, in Colombia.
Senator KERRY. This was your personal transaction?
Mr. MORALES. Yes.
Senator KERRY. Where did you bring it in from?
What countries?
Mr. MORALES. I brought it to the Bahamas.
Senator KERRY. To the Bahamas——
Mr. MORALES. Yes.
Senator KERRY [continuing]. Or from the Bahamas?
Mr. MORALES. No, no.
From Colombia to the Bahamas.
Senator KERRY. From Colombia to the Bahamas.
Why did you go to the Bahamas?
Mr. MORALES. Because it's the best stop place for drug activities.
Senator KERRY. Why is it the best stop place?
Mr. MORALES. It is close to south Florida, and you be able to carry out, in and out, any drug activities without no problem whatsoever.
Senator KERRY. Why is there no problem whatsoever in the Bahamas?
Mr. MORALES. Because you be able to buy just about everybody in the government in the Bahamas about drug-related situations.
Senator KERRY. Did you personally do that?
Mr. MORALES. Many times.
Senator KERRY. You personally paid money?
Mr. MORALES. Yes, I did.
Senator KERRY. And you could, in executive session, share with us those names?
Mr. MORALES. Yes, I will.
Senator KERRY. Now you have been incarcerated for the last 13 months. During the time you've been incarcerated, have you talked with people who are engaged in narcotics running?
Mr. MORALES. Yes, I did.
Senator KERRY. Right up until the present moment?
Mr. MORALES. Yes.
Senator KERRY. Can you—I realize it's hearsay and it wouldn't stand up in a court of law, but from respect of just this committee's knowledge, where we operate under different rules, can you share with us whether or not it is your knowledge, based on those conversations, that that drug trafficking still continues through the Bahamas?
Mr. MORALES. Well, Senator, I've been incarcerated for the last 13 months, like I told you in the beginning, and through my incarceration, between my incarceration, I have been talking to a lot of people who just recently have been put in jail, most of them be-

cause of the situation in the Bahamas, being caught in a plane or boat, or any type of situation related to the Bahamas.

Senator KERRY. And it's your knowledge that the same ability to traffic still continues?

Mr. MORALES. Yes.

Senator KERRY. Did they tell you whether it's harder or is it more difficult? Is it reduced?

Mr. MORALES. About the same way.

Senator KERRY. The same way.

Mr. MORALES. About the same way.

Senator KERRY. How large was your organization? [Pause.]

Mr. MORALES. It was very big, Senator. It was very big.

Senator KERRY. Can you give us a sense?

How many people?

Mr. MORALES. I would say that we got indicted probably 14, 15 people, and there were about 7 that did not get indicted and were about probably——

Senator KERRY. Now wait. You're speaking a little bit fast for me.

Fourteen people were indicted?

Mr. MORALES. Fourteen were indicted. There were about seven——

Senator KERRY. With you?

Mr. MORALES. Yes—the first time. I'm sorry. Let me back up.

The second time, and there were about 6 or 7 that did never get indicted, and there were about probably maybe 10 or more that were not available for the authorities to get them indicted.

Senator KERRY. How many pilots worked for you?

Mr. MORALES. Many, many. I would say probably 20, 30 pilots, at least.

Senator KERRY. Twenty or 30 pilots?

Mr. MORALES. At least.

Senator KERRY. Are some of those pilots now in jail?

Mr. MORALES. Yes, they are.

Senator KERRY. Did some of those pilots fly these cocaine shipments for you?

Mr. MORALES. Yes, they did.

Senator KERRY. OK.

Can you share the names with us of those pilots who are in jail currently?

Mr. YAVITZ. Mr. Chairman, he would prefer not to do it publicly. And we would again request as to any names, even if they are in jail, that it be done in a closed session.

Senator KERRY. Well, let me ask this question.

Are you willing to share with us the names? With respect to corroborating this story, as you understand, it's very important for us to be able to follow the chain of linkage here.

Mr. MORALES. OK. I can give you the names now.

Senator KERRY. All right.

Mr. MORALES. One of them is Tom Hughes.

Senator KERRY. Could you spell that?

Mr. MORALES. Tom Hughes—H-u-g-h-e-s.

Senator KERRY. H-u-g-h-e-s?

Mr. MORALES. Tom Hughes. He is incarcerated now in Maxwell Camp. He is incarcerated for the same charges that I'm serving time at the present time.

Diego Real.

Senator KERRY. Can you spell that?

Mr. MORALES. Diego—D-i-e-g-o. R-e-a-l.

Senator KERRY. Where is he incarcerated?

Mr. MORALES. I do not have no idea.

Senator KERRY. All right.

He was in the same enterprise as you were?

Mr. MORALES. Yes.

And Lucas Harmony.

Senator KERRY. Would you spell that again, please?

Mr. MORALES. L-u-c-a-s. Last name is Harmony—H-a-r-m-o-n-y.

Mr. YAVITZ. We should point out that's an alias.

Mr. MORALES. Sorry about that. [Laughter.]

Senator KERRY. Let me come back to that.

Are the other names aliases?

Mr. MORALES. Gary Betzner.

I'm sorry. That was my fault.

Gary Betzner—B-e-t-z-n-e-r.

Senator KERRY. Thank you.

Is that the only one that's an alias?

Mr. MORALES. No. There's quite a few more. [Laughter.]

Senator KERRY. Now, wait, wait.

Mr. MORALES. Oh, no, no. I'm sorry, Senator. Do you mean the——

Senator KERRY. I know there are quite a few more who have aliases.

Mr. MORALES. No. I thought——

Senator KERRY. Of the other names you gave me, were those aliases or were those the real names?

Mr. MORALES. No, no, no. The real names.

Senator KERRY. Their real names?

Mr. MORALES. Yes.

Senator KERRY. Let me do this, because my colleague is also under some pressure.

I want to ask you a few questions about one area, and then we'll come back. But I do want the record to go through this detail. I know it's tedious, but it's very important.

In 1984, you said your shipments began to change.

Is that correct?

Mr. MORALES. Yes, they did.

Senator KERRY. Is that the point in time in which you were approached by people you knew to be part of the Contra organization?

Mr. MORALES. Yes.

Senator KERRY. Can you describe specifically when that took place and what took place?

Mr. MORALES. That was right after my indictment.

Senator KERRY. When was your indictment?

Mr. MORALES. March 3, March 3 or March 6, 1984. Right after that, few weeks, maybe a month, I was introduced by the Contra leaders in south Florida.

Senator KERRY. Who were you introduced to?

Mr. MORALES. I was introduced by Popo Chammoro, Octaviano Cesar, and——

Senator KERRY. Popo Chommoro.

Mr. MORALES. Yes.

Senator KERRY. Octaviano Cesar.

Mr. MORALES. Yes, and Marcos Aguado.

Senator KERRY. And Marco Aguado.

Mr. MORALES. Which they represent themselves as being leaders of the Contras and also represent themselves as CIA agents.

Senator KERRY. Now when you say they "represented themselves," did you know of them at that time?

Mr. MORALES. I heard about they being CIA agents. Yes, I did.

Senator KERRY. When you say "their being," who was a CIA agent?

Mr. MORALES. Marcos Aguado and Cesar Octaviano.

Senator KERRY. How do you know that?

Mr. MORALES. It's being very well known through many people for a long time around Central America and south Florida.

Senator KERRY. You knew that at the time?

Mr. MORALES. Yes, I did.

Senator KERRY. Did they have to tell you that for you to know that?

Mr. MORALES. Not whatsoever.

Senator KERRY. And what happened at that point in time?

Mr. MORALES. I was asked for help, financial help, any type of help that they were looking to have, because they had to be in this problem, they didn't have enough money, whatever. And also for exchange of taking care of my legal problems at the moment.

Senator KERRY. I just want to understand this very clearly.

You're saying that they asked you for help?

Mr. MORALES. Yes, they did.

Senator KERRY. Were they specific about the kind of help they asked you for?

Mr. MORALES. Yes, they did.

Senator KERRY. All right.

Who specifically asked you for what help?

Mr. MORALES. Octaviano Cesar was the one doing most of the talking in my office.

Senator KERRY. What did he say to you?

Mr. MORALES. He said that I was looking for airplanes, money, training, weapons, explosives, any type, any kind of help.

Senator KERRY. Did you agree to help?

Mr. MORALES. Yes, I did.

Senator KERRY. What did you agree to do?

Mr. MORALES. I agreed to give him some planes, money, and to help him, to help him out.

Senator KERRY. When he asked you for explosives, and guns, and other weapons, did you agree to get those weapons?

Mr. MORALES. Yes, I did.

Senator KERRY. Did you know where to get those weapons at that time?

Mr. MORALES. Yes, I did.

Senator KERRY. How did you know where to get them?

Mr. MORALES. I used to buy the weapons in south Florida, in a gun shop, before that meeting. It was very obvious that I can buy more guns after I have the meeting with these particular fellows.

Senator KERRY. How many times did you meet with these leaders to discuss your help?

Mr. MORALES. Many times, Senator. Many times.

Senator KERRY. In what year?

Mr. MORALES. Since 198—the first time that I saw him, not met him, but I saw him, was in 1983, around this time, July or so. And then I was introduced formally to them, and the people, the person who was going to introduce me, told me who they were. And I became to be introduced formally with them in 1984.

Consequently to that meeting, I have several, several meetings.

Senator KERRY. Now you agreed to give the Contras a plane?

Mr. MORALES. I agreed to give the Contras quite a few planes.

Senator KERRY. How many planes did you give them?

Mr. MORALES. The first time I agreed to give them a DC–4, a DC–3, a helicopter, a Piper Navajo.

Senator KERRY. You just gave them? You gave them away?

Mr. MORALES. Yes, I did.

Senator KERRY. What was in it for you?

Why did you give away these planes?

Mr. MORALES. Well, Senator, like I told you before, I was arrested long before that time, and I was facing one of the most critical charges because of my indictment. So, they promised me that they would take care of the legal activities, the legal activities that I was charged for.

Senator KERRY. Who promised you that?

Mr. MORALES. Cesar and Popo.

Senator KERRY. He said he could take care of your legal problems?

Mr. MORALES. Yes, yes.

Senator KERRY. Specifically?

Mr. MORALES. Yes.

Senator KERRY. Was he more specific about that?

Mr. MORALES. Yes.

Senator KERRY. How?

Mr. MORALES. Many times I talked to him and he told me that he had plenty of friends, being him, the CIA, can advise the superiors about my financial support and airplane and training, and, therefore, they will finally, eventually will take care of my problem, which they did. To an extent, they did. As a matter of fact, they did.

Senator KERRY. We'll come back to that in a little while.

If you'd make a note on that, we'll come back to that in a while. I want to just run through this so Senator McConnell can have his round.

Mr. MORALES. Excuse me one second. [Pause.]

Senator KERRY. Was the plane that you gave the Contras used by them?

Mr. MORALES. Yes, it was.

Senator KERRY. And you know that for a fact?

Mr. MORALES. For a fact, sir.

Senator KERRY. At this point in time, did you make some agreement about running guns down to various locations and bringing drugs back?

Mr. MORALES. Yes, I did.

That was part of the agreement.

Senator KERRY. When you say "that was part," can you be more specific?

Precisely how did that discussion come about?

Mr. MORALES. I was supposed to give him financial support, also buying guns for them, supplies, safety houses for them, in south Florida, buying equipment, different type of equipment, boats, engines, boots, uniforms, whatever it was they need for them to have.

Senator KERRY. How were you supposed to buy this? Did they give you money?

Mr. MORALES. No.

I was the one who was going to buy, from my own money.

Senator KERRY. Where was the money coming from?

Mr. MORALES. Drugs.

Senator KERRY. Did they know that?

Mr. MORALES. Of course they know that.

Senator KERRY. Why do you say "of course they know that"? How do you know they know that?

Mr. MORALES. Because we discussed, as a matter of fact, we discussed to bring drugs that did not belong to me. They were their own drugs.

Senator KERRY. Whose drugs?

Mr. MORALES. The Contras drugs.

Senator KERRY. How do you know they were Contra drugs?

Mr. MORALES. They told me.

Senator KERRY. What?

Mr. MORALES. They told me. As a matter of fact——

Senator KERRY. What did they tell you? Did they say here's drugs, these are Contra drugs?

Mr. MORALES. No, no, no.

They say, there was a few trips that I was supposed to do for them in drugs. I did not ever ask him where the drugs come from other than that they were the drugs.

Senator KERRY. Did you do those trips?

Mr. MORALES. Yes, I did.

Senator KERRY. When you say you did, did you personally fly them?

Mr. MORALES. No.

I instruct my pilot to fly them.

I was waiting on the runway for some of them, and I saw the drugs.

Senator KERRY. Now, in 1984, did you personally load weapons into an airplane in Fort Lauderdale?

Mr. MORALES. Yes, I did.

Senator KERRY. Did you see those weapons?

Mr. MORALES. I bought them.

Senator KERRY. Where did you buy them?

Mr. MORALES. I bought them, some of them I bought them in the gun shop in south Miami.

Senator KERRY. What kind of weapons were they?

Mr. MORALES. Machineguns, automatic rifles, high powered rifles, pistols, explosives.

Senator KERRY. Were these fully automatic machineguns?

Mr. MORALES. Oh, yes. They were.

Senator KERRY. Did you buy fully automatic machineguns on the open market in Florida?

Mr. MORALES. I did.

Senator KERRY. In what quantity did you buy them?

Mr. MORALES. We sent many planes full of weapons down there. I really don't recall specifically the amount of items, but it was very considerable.

Senator KERRY. Did you load these weapons onto the airplane in daytime or nighttime?

Mr. MORALES. I did load them in the daytime, 12 noon in the daytime.

Senator KERRY. Right in the full view of people?

Mr. MORALES. Yes. Many times.

Senator KERRY. And were you at the airport when the planes came back?

Mr. MORALES. Yes, I was.

Senator KERRY. What did you unload from those planes when they came back?

Mr. MORALES. I was in the beginning of the runway. The plane lands and unloads the drugs into the end of the runway.

Senator KERRY. How did you know they were drugs?

Mr. MORALES. I saw them.

Senator KERRY. What did you do with those drugs?

Mr. MORALES. Sell them.

Senator KERRY. What did you do with the money?

Mr. MORALES. Give it to the Contras.

Senator KERRY. All right.

I'm going to come back to this because there's obviously considerably more detail that needs to be filled in.

Mr. MORALES. Let me make myself clear, Senator.

Senator KERRY. Please.

Mr. MORALES. I gave them back to the same people because the Contras means a lot to a lot of people. I gave them back to Mr. Octaviano Cesar, who works for, used to work for the CIA, and Mr. Popo Chammoro, and Marcos Aguado.

Senator KERRY. We're going to come back to go after some of the details on this.

I'd like to let Senator McConnell have an opportunity here.

Senator MCCONNELL. Thank you, Mr. Chairman.

We've heard a lot of allegations in both executive sessions and in public sessions from people who are currently in jail about a variety of different individuals who are not in jail.

For example, 3 weeks ago, Mr. Chairman, my staff asked yours to confirm whether or not certain individuals were or were not members of the CIA, if such allegations were to be made in public.

We have here today two suggestions, of two individuals, that Mr. Morales, who is currently in jail, say were members of the CIA.

I just wonder if counsel has found the answer to that, since we have made that request several weeks ago.

Senator KERRY. We don't have an answer. We do not have an answer yet.

Senator MCCONNELL. Well, it seems to me elementary, when you know in advance that somebody is going to say in a public meeting that a couple of individuals are in the CIA, that we would be entitled to an answer to that. I would suggest, Mr. Chairman, that we get that answer forthwith.

We are all interested in this inquiry. I think it is terribly important. But to the extent that people are going to be accused in public of being this, that, or the other, by convicted felons who are currently doing time, it seems to me we also owe the public an obligation to find out whether or not these allegations are truthful.

Senator KERRY. Let me just say that I don't disagree with the Senator at all. In fact, I agree completely. He is absolutely correct. He is on target.

This Senator is somewhat frustrated, however, because for a year and a half, I have been asking these questions. We now have subpoenaes out. I have met with members of the CIA. We have sent letters under the signature of Chairman Lugar and at that time Ranking Minority Member Pell to the Justice Department, and we still do not have answers to those inquiries.

I think there has been a pattern of slow response here, which is part of what I think we'll get out of this over time.

But I will certainly undertake, to the best of my ability, in joint concert with your office, immediately upon the conclusion of this hearing, you and I can both get on the telephone and we can both ask for that secret briefing and see if we can get to the bottom of this.

Senator MCCONNELL. Well, I think we should have done that earlier.

As you know, we have tried to pursue this in a bipartisan way and I would like to continue to do that. But we would like, as I have repeated to you in private, when allegations such as this are made, we think we're entitled to hear from the people against whom the allegations are made.

There is one individual that is not the subject of this hearing today that we fully expect to be called next week to respond to allegations that were made against him in an earlier executive session, and I assume, counsel, that that's going to happen. Is it not?

Senator KERRY. We are hopeful that it will.

We have been trying to serve that individual. He is currently in uniform in the armed services of another country.

Senator MCCONNELL. He has agreed to come at any time.

We have been in communication with him. There is no problem. There appears to be a delay in trying to get him up here. He is willing to come next week, and I fully expect him to be called next week.

Senator KERRY. We fully expect him to be here as soon as possible.

He was subpoenaed in the large group of subpoenaes that went out last week.

Senator MCCONNELL. He doesn't even need to be subpoenaed. He's happy to come, wants to come, and, as far as I'm concerned, he's going to be here next week, unless you tell me otherwise.

Senator KERRY. If he says that he's going to be here, I'm delighted to hear him.

Senator MCCONNELL. We'll be delighted to hear from him.

Meanwhile, back in the Bahamas, how frequently did you transit the Bahamas?

Mr. MORALES. Every day, Senator.

Senator MCCONNELL. Every day?

Mr. MORALES. Yes.

Senator MCCONNELL. Did you rely on airdrops, offloading cargo planes to smaller planes, or did you use boats, or all of those?

Mr. MORALES. I used all of them.

Senator MCCONNELL. All of them?

Mr. MORALES. Yes.

Senator MCCONNELL. And you were doing it every day?

Mr. MORALES. No. I used to fly it to the Bahamas every day.

Senator MCCONNELL. You flew to the Bahamas.

Mr. MORALES. I used to also do trips, small trips every day, yes.

Senator MCCONNELL. And how long were you flying over there every day?

Mr. MORALES. I recall sometimes we did seven trips a week. I recall once that we did seven trips a week.

Senator MCCONNELL. Yes. But over how long a period of time were you going over there?

Mr. MORALES. From 1979–80 to 1983–84—three.

Senator MCCONNELL. How many people were typically involved in those transactions over there in the Bahamas?

Mr. MORALES. Unloading the merchandise?

Senator MCCONNELL. Just the number of Bahamians that you would deal with in a typical transaction. How many?

Mr. MORALES. Just about everybody in the Bahamas.

Senator MCCONNELL. Just about everybody in the Bahamas?

Mr. MORALES. Yes.

Senator MCCONNELL. Put a number on that. How many people are you talking about?

Mr. MORALES. Excuse me, Senator. [Pause.]

I'm sorry. I must have misinterpreted the question.

Can you ask me the question again, please?

Senator MCCONNELL. How many Bahamians would you deal with in a typical transaction to make it work out to your satisfaction?

Mr. MORALES. In a single transaction?

Senator MCCONNELL. Yes.

Mr. MORALES. Customs, immigration, the police, and the people who were in charge of unloading the merchandise, the people in charge to keep the merchandise safe.

Senator MCCONNELL. And all of these people were bribed, were they not?

Mr. MORALES. Every one of them.

Senator MCCONNELL. Were there individual acts of bribery, or could you make a monthly payment?

Just how did you handle this?

Mr. MORALES. They used to make their salary by trip.

I used to pay like, for instance, to the man in charge of the island, he used to take care of the police, immigration, and customs.

Senator McCONNELL. So, you had one sort of Mr. Fix-it that took care of it?

Mr. MORALES. For the police, yes, and for the immigration and all. Sometimes I did it myself, direct. Many times I did it myself.

And I used to pay another gentleman who will be the one in charge of the unloading and stash houses, whatever.

Senator McCONNELL. So, each separate transaction triggered a different series of bribes? You didn't sort of pay by the week or the month, or something like that?

Mr. MORALES. You're right.

Senator McCONNELL. You went through this on every single day. You were going through it?

Mr. MORALES. Yes. Sometimes I did it every single day. Sometimes it took weeks, maybe months, to do it.

Senator McCONNELL. Did the size of the haul affect how many people you had to bribe?

Mr. MORALES. Yes, it did.

Senator McCONNELL. What percentage of the amount of money involved in a given transaction would be required to pay off everybody you needed to pay off to make it work?

Mr. MORALES. Senator, that will be very hard for me to explain to you because of the different types of drug related trips. It's not the same thing to pay off for a small plane, with 2,000, 2,500, 2,800 pounds of marijuana, as the same plane with 500,000 kilos of cocaine.

Senator McCONNELL. On a percentage basis, though, was it roughly the same?

Mr. MORALES. No.

It goes with the type of merchandise, and also goes with the amount of drugs involved on it.

Senator McCONNELL. Did you personally pay off government officials?

Mr. MORALES. Yes, I did.

Senator McCONNELL. Were they members of the parliament?

Mr. YAVITZ. This is a very touchy question and requires a very delicate answer. He's not prepared to give that answer in public.

Senator McCONNELL. But was the answer that he did pay off elected officials, not just appointed functionaries, but elected officials as well?

Mr. MORALES. Yes. Yes, I did, directly myself.

Senator McCONNELL. Did you have much contact with the competition, so to speak, the other people involved in the same kind of illicit drug trading you were involved in?

Would you run into other people doing the same thing?

Mr. MORALES. Senator, I used to have Aviation Activities in Opalaca. It is FOB, a fixed operation base. Most of the planes, the trips that we did, legal trips, they were going out of Opalaca to the Bahamas.

I owned a company for a long time. Therefore, I was, used to see these people every single day. Everybody. And also I run across them in the Bahamas, when I was doing my activities, my illegal activities.

Yes, I did.

Senator McCONNELL. Yes, you did what?

86-477 O - 88 - 3

Mr. MORALES. I did, saw other competitors while I was doing my illegal activities. Yes, I did.

Senator MCCONNELL. Almost every day, did you?

Mr. MORALES. I used to see them every day.

You have to understand something, Senator.

Have you ever been in the Bahamas?

Senator MCCONNELL. No.

Mr. MORALES. Can I explain to you?

Senator MCCONNELL. Yes.

Mr. MORALES. OK.

Let's take, for instance, Gran Inagua. Gran Inagua has only one taxi, has only one bus, it's stationed in Casa Station, and has only one hotel. So, therefore, whatever you want to do on that island, you have to go to the No. 1 guy. It's only one road, and about 20, 30, 50 families. Everybody knows each other. I believe, and I'm sure that's the only source of income. Therefore, it's very obvious for me or for anybody else to go over there and find out what's going on and see the same people.

Senator MCCONNELL. So, in that particular area, drug trafficking was the only source of income?

Mr. MORALES. That I know of it, yes.

Senator MCCONNELL. It totally dominated the economy, then?

Does it totally dominate the economy of the Bahamas?

Mr. MORALES. Do you want me to draw that conclusion? Do you want me to tell you the way I feel?

Senator MCCONNELL. Well, your opinion. I know that you're not an economist on the Bahamas.

Mr. MORALES. Yes. Yes, it is.

Senator MCCONNELL. How successful were the interdiction efforts of this country during the period you were operating?

Mr. MORALES. Can you be more specific about that question, Senator?

Senator MCCONNELL. How successful were the interdiction efforts of this country during the period you were operating between the Bahamas and the United States.

Mr. MORALES. I had not even had a problem.

Senator MCCONNELL. It had no impact on your work at all——

Mr. MORALES. Not whatsoever.

Senator MCCONNELL [continuing]. Until they caught you?

Mr. MORALES. Not whatsoever.

Senator MCCONNELL. From what you know, have the recent interdiction efforts of the United States had any impact on the drug trafficking between the Bahamas and the United States?

Mr. MORALES. I don't think so, Senator.

Senator MCCONNELL. So, you don't think the increase in efforts have had any impact on it at all?

Mr. MORALES. Not whatsoever.

Senator MCCONNELL. If you were in our shoes, you're pretty experienced at this business.

Mr. MORALES. Yes, I was.

Senator MCCONNELL. You did it for a while and made a lot of money, presumably.

Mr. MORALES. Yes, I was.

Senator MCCONNELL. If you were in our seats, what would you do?

Mr. MORALES. Probably legalize the drugs. [Laughter.]

Senator MCCONNELL. What's your second choice? [Laughter.]

Mr. MORALES. I'm sorry, Senator, I didn't mean to be—but that's, quite frankly, the answer, legalize the drugs.

Senator MCCONNELL. But assuming that's not likely to answer, what's your second choice?

Mr. MORALES. The second choice—I really don't know. It's impossible to do it.

Senator MCCONNELL. Impossible?

Mr. MORALES. Yes, it is, because every single day——

Senator MCCONNELL. So, in your view, we're sort of wasting our time?

Mr. MORALES. Yes, in sort of a way, yes. Every single day has more and more people in the business. You know, it became a major, major way to live, major—how do you say——

Senator KERRY. Source of income?

Mr. MORALES. Yes, a major source of income, especially in the Bahamas. That's the only income they have whatsoever.

Senator MCCONNELL. Thank you, Mr. Chairman.

Senator KERRY. Thank you very much, Senator.

We will be briefed this afternoon by the CIA, if you can make yourself available.

Senator MCCONNELL. I'll be available.

Senator KERRY. We can get further information, I hope.

Mr. Chairman, do you have any questions you would like to ask at this point?

The CHAIRMAN. No questions, thank you.

I just want to get the flavor of the hearing.

Senator KERRY. Thank you very much. We appreciate your presence.

The CHAIRMAN. I want to congratulate you and Senator McConnell on pursuing this line of inquiry.

Senator KERRY. Thank you very much.

I want to come back to something. I want to ask you more about Cuba.

This is the first time you've ever talked about Cuba; am I correct?

Mr. MORALES. Yes.

Senator KERRY. You've never mentioned that you had any narcotics involvement in Cuba before.

Mr. MORALES. I did mention it through my attorneys to the U.S. prosecutor in south Florida many times.

Senator KERRY. But publicly you've never said that?

Mr. MORALES. No, never—I don't think so. Not that I recall.

I don't think so.

Senator KERRY. Before I revisit the issue of the gunrunning, which we need to get into in more detail, let me ask you this.

How did you get into Cuba?

How were you able to exit and to entrance?

Mr. MORALES. Since I recall, that was from the *Mariel* time, and also through a friend of mine, who used to deal with the Cuban authorities about the drug activities.

Senator KERRY. Did you also pay money there in order to facilitate that?

Mr. MORALES. Yes.

Senator KERRY. Did you pay money through your friend, who paid people, or did you pay people directly?

Mr. MORALES. Directly.

Senator KERRY. You paid them directly?

Mr. MORALES. I did.

Senator KERRY. How did you get the overflight permission? Where did that come from?

Mr. MORALES. You just have to have a code.

Senator KERRY. Who gave you the code?

Mr. MORALES. The officials, Cuban officials.

Senator KERRY. And you had your special code, personal code?

Mr. MORALES. A special, personal code. I did.

Senator KERRY. Did that code change ever?

Mr. MORALES. No.

Senator KERRY. It was always the same code?

Mr. MORALES. Always the same one.

Senator KERRY. Over what period of time were you involved in narcotics trafficking with Cuba?

Mr. MORALES. Since early 1980 to 1984-5—many years. Many years. I would say probably my last trip to Cuba was in 198——

Senator KERRY. Did you fly in in one of your aircraft?

Mr. MORALES. I used to go in and out in my own aircraft, yes, I did.

Senator KERRY. Did you fly in the same aircraft each time?

Mr. MORALES. No. Different aircraft each time.

I flew probably three or four aircraft. But I didn't go one after the other one in the same aircraft, no.

Senator KERRY. Where would you fly from?

Mr. MORALES. I would fly from Miami, Opalaca, my airport. Sometimes from Executive Airport in Fort Lauderdale.

Senator KERRY. Did you file a flight plan?

Mr. MORALES. No, I did not.

Senator KERRY. How would you deal with the American defense system?

Mr. MORALES. You don't have to deal with that, Senator.

Senator KERRY. Why?

Mr. MORALES. You just have to have a plane, have a pilot, and jump in a plane, take off.

Senator KERRY. Well, don't we have surveillance of aircraft coming out of Cuba?

Mr. MORALES. Probably, but I never had to deal with no such a thing like that.

Senator KERRY. You just flew in?

Mr. MORALES. I flew from here directly to Havana.

Senator KERRY. What altitude did you fly at?

Mr. MORALES. Out of there to here?

Senator KERRY. From the United States to Cuba.

Mr. MORALES. Yes, I did.

Senator KERRY. What altitude?

Mr. MORALES. Oh, the altitude—11,000 feet; sometimes 8,000. You know, you approach the island, you go down.

Senator KERRY. Did you fly low to avoid radar at any place?
Mr. MORALES. Say that again, Senator?
Senator KERRY. Did you fly low to avoid radar at any location?
Mr. MORALES. Me flying the plane, being in the plane?
Senator KERRY. Yes.
When you were in the plane going to Cuba, did you try to avoid radar at all?
Mr. MORALES. Sometimes, yes.
Senator KERRY. Sometimes.
Mr. MORALES. Yes.
Senator KERRY. Why only sometimes?
Mr. MORALES. When I went from Cuba to the Bahamas, I had to fly low, maybe because we wanted to see the ocean, but not really particularly to avoid the radar.
Senator KERRY. But not to avoid the radar.
Mr. MORALES. I really don't know. I don't recall flying one time specifically just to do that. Sometimes we did it inside the United States, yes, to avoid the radar.
Senator KERRY. Did the Cubans solicit assistance from you regarding drug trafficking?
Mr. MORALES. They are in the business to make money, Senator. So any type of, sort of speaking, any type of business, they're willing to do with you, especially with you well known in the business, like I was in those times.
Senator KERRY. Did there come a time when you were invited to Havana?
Mr. MORALES. Yes, many times.
Senator KERRY. How did that come about?
Mr. MORALES. That was in 1984.
Senator KERRY. Why were you invited to Havana?
Mr. MORALES. I went over there to visit some of my wife's relatives, relatives.
Senator KERRY. That was pleasure, then?
Mr. MORALES. Yes.
Senator KERRY. Where did you stay?
Mr. MORALES. I stayed in the Triton Hotel, Havana.
Senator KERRY. Did you talk to government officials at that point in time?
Mr. MORALES. Yes, I did. Many of them.
Senator KERRY. Did they personally identify themselves to you?
Mr. MORALES. Yes, sir. They did.
Senator KERRY. Was there any discussion about intelligence gathering at that time?
Mr. MORALES. Can you repeat? Can you be more specific about that question, Senator, please?
Senator KERRY. Did they ask you to engage in any intelligence gathering activities?
Mr. MORALES. To engage with them in——
Senator KERRY. Intelligence gathering, information, intelligence.
Mr. MORALES. For them?
Senator KERRY. Yes.
Mr. MORALES. No. If they did, I don't recall.
Senator KERRY. Did they make any offers to you of any kind?
Mr. MORALES. Yes, they did.

Senator KERRY. About what?

Mr. MORALES. For instance, to be there, to avoid my charges, because I was facing so many years. They offered me the island. They offered me my own code, which I did have. They offered me island, different than Cuba. They offered me a runway, bank, house.

Senator KERRY. Why didn't you accept that?

Mr. MORALES. I did some. I did accept some of it.

Senator KERRY. What did you accept?

Mr. MORALES. I did accept the house, and my code to go in and out of Cuba without no problem whatsoever. I did accept bank transactions. I did accept to buy gold in their own banks.

Senator KERRY. So, this was to facilitate your drug trafficking?

Mr. MORALES. Sort of speaking, yes.

Senator KERRY. What year was this?

Mr. MORALES. In 1984 and 1985.

Senator KERRY. This was after your indictment?

Mr. MORALES. Yes, and before that, too. I want to make that clear, for the record. In 1980, when I went for the *Mariel*, I met very high officials, which I was also offered different types of transactions, different types of deals, business.

They wanted to buy, also, Senator, any type of, they wanted to get any type, to buy any type of merchandise, you know, boats.

Senator KERRY. Let me ask Senator McConnell if on Cuba he has anything he wants to ask, before we move into another area.

Senator MCCONNELL. No, thank you.

Senator KERRY. Let me come back to the question now of guns and Contras.

You say the first contact was made in, you met in 1983, but the first contact to actually assist in getting guns was in 1984.

Is that correct?

Mr. MORALES. I did send some guns in 1983.

Senator KERRY. You sent some guns in 1983.

Mr. MORALES. Yes, 1983.

Senator KERRY. What quantity of guns would you send in any shipment?

Mr. MORALES. In 1983, I recall sending 40 M-79's, grenade launchers. I do not know where the plane land, other than there was a discussion if they land in Costa Rica or Salvador.

Consequently, with that trip, I learned through the people through the plane that they landed in Salvador.

Senator KERRY. Do you remember, at Ilopango?

Mr. MORALES. Yes, they did.

Senator KERRY. Do you remember the tail number of that plane?

Mr. MORALES. If I'm not mistaken, it's Papa Papa Echo Delta Charlie.

Senator KERRY. What kind of plane?

Mr. MORALES. DC-3, C-47. The same as the one the CIA has now in Ilopango, which I gave them in 1984, late 1984, to the CIA.

Senator KERRY. I'm sorry. I didn't follow that.

Mr. MORALES. The same plane that I gave to the Contras and the CIA in late 1984. They still have it.

Senator KERRY. You're saying they still have it?

Mr. MORALES. Yes.

Senator KERRY. It's at Ilopango now?

Mr. MORALES. It is there.

Senator KERRY. How do you know that?

Mr. MORALES. Because they haven't moved it.

Senator KERRY. How do you know they haven't moved it?

Mr. MORALES. I talked to, in the meeting that I had with Mr. Eden Pastora last year, it was in the beginning of 1986, the last meeting that I had with him, and we discussed the situation with him.

That's why I know that the plane is still there.

Senator KERRY. Now that is the only shipment in 1983?

Mr. MORALES. Yes.

Senator KERRY. In 1984, that's when you first had these series of meetings with Popo Chammoro and Marco Aguado; is that correct?

Mr. MORALES. Yes.

Senator KERRY. In 1984?

Mr. MORALES. I was formally introduced to them in 1984.

Senator KERRY. Who introduced you to them?

Mr. MORALES. Mr. Chammoro's, his wife.

Senator KERRY. Did Martha Healy play any role in that?

Mr. MORALES. She is, in fact, Mr. Chammoro's wife.

Senator KERRY. How long a period of time did those meetings go on for?

How many times did you meet?

Mr. MORALES. About every single day. We just, I used to stay in the same hotel with them.

Senator KERRY. Where?

Mr. MORALES. The meetings lasted for days and days and days.

Senator KERRY. Where?

Mr. MORALES. In Miami.

Senator KERRY. What hotel?

Mr. MORALES. Fontainbleu was one of them.

I remember in late 1984, that Octaviano Cesar went with me for a week or 10 days for the offshore powerboat race in Key West.

Senator KERRY. Under whose name did you register at the hotel?

Mr. MORALES. I used to have the whole penthouse. It's supposed to be me or my racing team. Maybe, maybe could have been him, himself, because, as I recall, he was first in the penthouse; later on he was in the third floor. I believe, if I'm not mistaken, 315 is the room number.

Senator KERRY. Who was on the third floor?

Mr. MORALES. Cesar.

Senator KERRY. Cesar?

Mr. MORALES. Cesar Octaviano, yes, and his wife and some friends.

Senator KERRY. In the Fontainbleu Hotel?

Mr. MORALES. No.

This is in Key West.

Senator KERRY. Oh, Key West.

Mr. MORALES. In the Fontainbleu Hotel he was in his own name.

Senator KERRY. Which hotel was he in in Key West?

Mr. MORALES. Casa Marina—Casa Maria.

Senator KERRY. Casa Maria.

Now you say you met with him there?

Mr. MORALES. No. We flew, as a matter of fact, we flew one of my helicopters together with my wife and his wife, Martha Healy, down there for the races.

Senator KERRY. And it was in those conversations that the discussion of assisting the Contras came up?

Mr. MORALES. No.

Senator KERRY. All right. When did that——

Mr. MORALES. All the time. The purpose of the meeting, the conversation, all the time, I don't recall not even one particular time, Senator, that I met with them that we didn't talk about the guns, drugs, the help.

Senator KERRY. Always?

Mr. MORALES. All the time.

Senator KERRY. When was the first trip that you made in which guns went down and drugs came back?

Mr. MORALES. That was around July 1984.

Senator KERRY. In 1984?

Mr. MORALES. Yes.

Senator KERRY. How did that arrangement come to be made?

Mr. MORALES. With them, with Popo and Octaviano.

Senator KERRY. Was there specific discussion of drugs coming back in in the same plane?

Mr. MORALES. All the time.

Senator KERRY. Why did that discussion take place?

Mr. MORALES. Because that was the purpose of our meeting, Senator. That was the purpose of me helping them out in return for them helping me with my legal problems, in the State Department, CIA, whatever.

Senator KERRY. Now how were you able—I think most of us sit here and say, you know, here you are, in the open daylight of which airport—which this Fort Lauderdale airport?

Mr. MORALES. We sent guns from different airports, Senator.

Senator KERRY. All right.

You flew guns out of Fort Lauderdale airport?

Mr. MORALES. Yes, I did.

Senator KERRY. You flew guns out of Miami International Airport?

Mr. MORALES. No.

Senator KERRY. Which airport?

Mr. MORALES. Out of Opalaca Airport.

Senator KERRY. Opalaca Airport.

Mr. MORALES. Many times.

Senator KERRY. What other airports did you fly guns out of?

Mr. MORALES. Executive Airport in Fort Lauderdale.

Senator KERRY. Any others?

Mr. MORALES. No, sir.

Senator KERRY. Now, here you are, in the light of day, 12 noon, at Fort Lauderdale airport. You are loading an airplane and you're loading guns into the airplane.

You didn't worry about anybody stopping you?

Mr. MORALES. No.

As a matter of fact, I did request, and I did ask, Marcos Aguado, and I remember specifically he telling me not to worry about it, we

are the CIA, we are going to be around the plane, and don't worry about it.

Senator KERRY. We're going to be what?

Mr. MORALES. Around the plane. Around the plane. Do not worry about it, because I was concerned about that situation.

Senator KERRY. Did any Customs agents ever inquire?

Mr. MORALES. Never, other than I remember one time one of them——

Senator KERRY. Let me just interrupt you.

You were under indictment at this time?

Mr. MORALES. Yes, I was.

Senator KERRY. So, you were doing this for a reason; is that correct?

Mr. MORALES. Yes, I did.

Senator KERRY. What was the reason you were doing this?

Mr. MORALES. N0. 1, they promised me, in exchange for my support, to take care of my legal problems.

Second, I was sort of paying back what I owe, you know. I feel good doing it because I say at least I'm paying back what I owe them, that I did illegally, between these years.

And last, to help them out.

Senator KERRY. Let me ask you a question.

Somebody sitting here, listening to you now, you've been convicted to 15, 16 years, I take it the IRS is after you for money; is that right?

Mr. MORALES. Yes.

Senator KERRY. You owe themmoney?

Mr. MORALES. Yes, I did—I do.

Senator KERRY. So, you've got a lot of problems; right?

Mr. MORALES. Yes, I do.

Senator KERRY. Here you are, sitting here in front of a committee, and you're telling us these things as though they are sort of the normal day, which, for you, I suppose it was, but for us it's not.

And we're sitting here listening, and every one of us has to say to ourselves, "You know, is this guy telling the truth? Why should we believe him today?"

I want you to address that. Why should I believe what you're saying, sitting here, talking about guns running out of here really easily and drugs coming back in, and this was business as usual?

Mr. MORALES. Senator, since last year, right after I got indicted, I tried too many times, many, many, many times, to get a hold of the U.S. prosecutor in south Florida, Miami. And my attorneys, which, at that time, I had about four or five, every one of them contacted the U.S. attorney, Mr. Kellner, Mr. Karadbel, Neil Karadbel, Leon V. Kellner, Lynea Snaeder-Johnson, and some of the other people, and told them about my role with the CIA and the Contras.

I have many letters that my attorneys sent, directed to the U.S. prosector's office advising them about my role, advising them that I was willing to talk with them what I did, that I was doing it for the Government of the United States, and I do not have whatsoever any doubt in my mind until this moment that none of those guys that they introduced to me are, in effect, CIA.

Senator KERRY. Well, I appreciate what you're saying, and I want to talk about your efforts to try to tell your story. But why should I believe you?

Why should I or any Americans say George Morales is telling the truth today, I believe him.

Mr. MORALES. I don't see why not, Senator. Quite frankly, in the beginning, when I started being interviewed with Mr. Gregory and Mr. Jack Blum, that was one of the first things I told Mr. Gregory. I do not want to go on Capitol Hill and testify unless I go before through the lie detector test. I'm willing. I'm here. I'm willing to do it.

Senator KERRY. When did you tell Mr. Gregory you would take the lie detector test?

Mr. MORALES. All the time.

Senator KERRY. And Mr. Gregory is the assistant U.S. attorney?

Mr. MORALES. No.

Senator KERRY. Oh, I'm sorry, excuse me. The House counsel.

Mr. MORALES. By the way, I did talk to Mr. Karadbel, the U.S. prosecutor in my case, and I told him, face to face, that I'm willing to do it, and that was 1 week before my sentence.

Senator KERRY. One week before you were sentenced——

Mr. MORALES. Yes.

Senator KERRY [continuing]. You told the U.S. attorney's office you would, you were trying to plea bargain; correct?

Mr. MORALES. Yes, I did.

Senator KERRY. And you were trying to make a deal?

Mr. MORALES. Yes.

Senator KERRY. And you said you were willing to tell all of this information.

Mr. MORALES. All this information, with the Cuba, and quite a few more things that, because of the nature, of the sensitiveness of this information, all the things that I have to explain, I'm not going to be able to reveal that in public session.

He knew about it.

Senator KERRY. Were you ever given a lie detector test?

Mr. MORALES. No, never.

Senator KERRY. Nobody has ever given you one?

Mr. MORALES. Never, ever.

Senator KERRY. There is no record of your taking one?

Mr. MORALES. I have never taken one. I don't even know how to take one, to be quite frank.

Senator KERRY. Are willing to take one?

Mr. MORALES. I'm willing to do it. I'm right here.

Senator KERRY. If this committee asked you to take one?

Mr. MORALES. Yes, 100 percent.

Senator KERRY. All right.

Now, when did you first have a communication other than your indictment, a discussion with the U.S. attorney's office in Miami regarding your willingness to talk?

Mr. MORALES. When was the first time?

Senator KERRY. [Nods affirmatively.]

Mr. MORALES. Right after my indictment. Right after I got arrested, June 12, 1986. My attorney, Kate Bonner—B-o-n-n-e-r—had a meeting with Mr. Kellner and Lynea Snaeder-Johnson was at the

meeting. Mr. Neil Karadbel was at the meeting. Don Carpenter, private investigator, who worked for Mrs. Bonner, was at the meeting. Kellner himself, and my attorney.

Consequently to that meeting, my other attorney, by the name of David O'Leary, also contacted Leon Kellner and talked to him about my situation.

The response was that they were not interested in politics.

Senator KERRY. Now this was in 1986?

Mr. MORALES. Yes, it was. Yes. Right after my, right after I got arrested on June 12.

Senator KERRY. You were arrested June 12?

Mr. MORALES. Yes.

And he also, in the meeting that——

Senator KERRY. Let me just go slowly because I want the record, the chronology, to show.

On June 12, you were arrested—of 1986?

Mr. MORALES. Yes.

Senator KERRY. And reports surfaced publicly about the gunrunning and drug smuggling in the newspapers in Miami during that period; didn't they?

Mr. MORALES. Yes, it was.

Senator KERRY. And through the fall?

Mr. MORALES. Yes.

Senator KERRY. When was the first time you were called before the grand jury to give evidence regarding these matters?

Mr. MORALES. About a month ago.

Senator KERRY. One month ago?

Mr. MORALES. A month ago, yes.

Senator KERRY. In 1987?

Mr. MORALES. In 1987. I believe it was a Tuesday. Can you hold one second, please, Senator?

Senator KERRY. Yes.

Mr. MORALES. I believe it was Tuesday. I believe it was June 16. That was a Tuesday, I believe, June 16.

Senator KERRY. June 16. All right.

Now, during the summer and fall of 1986, did you attempt to make known through your attorneys your willingness to discuss these matters?

Mr. MORALES. For the record, Senator, I would like to, for you to be a little bit more specific about what means the "summer"?

Senator KERRY. Well, in 1986.

Mr. MORALES. Which months, please?

Senator KERRY. From July——

Mr. MORALES. Yes.

Senator KERRY. [continuing]. All the way through the rest of the year of 1986.

Mr. MORALES. Into?

Senator KERRY. Into 1987.

Mr. MORALES. Into 1987. Probably 2 months ago, the last time. The last time I took the effort myself, directly myself, and I talked to the U.S. prosecutor myself about this relation, this situation.

Senator KERRY. But during those months last year, from July to December, did your lawyers communicate to the U.S. attorney's office?

Mr. MORALES. Yes, many times.

Senator KERRY. Did you make yourself available to discuss these matters?

Mr. MORALES. All the time. That was the major effort, the major concern, for us to talk to the U.S. prosecutor and inform him about all these several things that we're talking, discussing, today, in this hearing.

Senator KERRY. Counsel, did you want to add something?

Mr. YAVITZ. I'd like to point out that initially Mr. Morales was concerned about a plea bargain or improving his position with the Government, and at that time was willing to provide that information to improve his chances with his prosecution.

At this particular time, he has already been sentenced, and he is receiving no benefit of any kind by coming here before this committee, or any committee. From a legal standpoint, I have personally been opposed to him doing some of this, both for his own safety and for whatever benefits he can derive, which are basically nil.

So, if someone is concerned about his veracity or truthfulness at this time, here is a man who is coming before this committee with nothing to gain at this time of any value. Actually, it's against his best interests.

We do not have immunity, or my client does not have immunity. He has no witness protection program. He has a U.S. attorney's office in Miami who is totally opposed to him, who has taken such steps as to make sure that no agencies, from any DEA, Customs, or any agency which might be inquiring into this matter or interested in inquiring into this matter, can even deal with him. They have attempted to discredit him.

Senator KERRY. Let me ask you. Wait a minute, now. That's a very serious statement.

You're saying that the U.S. attorney has prevented other agencies who want to deal with him from doing so?

Mr. YAVITZ. Yes.

Senator KERRY. What other agencies have been prevented from dealing with him?

Mr. YAVITZ. Customs, DEA.

Senator KERRY. In what way have they been prevented?

Mr. YAVITZ. In order for a person, or a defendant, or an exdefendant, such as Mr. Morales, to deal with an agency, he obviously has to derive some type or enter into some type of agreement whereby what he would say would not be used against him, and the parameters of the agreement, it's usually reduced in the simplest form to a memo. But the agencies, being police and not being attorneys, cannot provide the letter of intent or letter of agreement.

And the U.S. attorney's office has refused to allow their office to be used to secure such an agreement.

So, even though the letter, the memo, could be reduced to a page, or a couple of lines, they have refused to provide that assistance, and, as a matter of fact, have told various agencies and agents not to deal with Mr. Morales at all, and not to deal with his representatives at all.

We have been confronted with that.

I personally have been confronted with that over the last several months. So, I speak from a position of total knowledge that we have had that type of confrontation with the U.S. attorney's office.

Mr. Morales, being here today, even though he is subpoenaed, could readily have invoked the fifth amendment.

As a matter of fact, that was my initial preference when we came here today. And I discussed with Mr. Blum my personal reluctance, my opinion, and my reluctance as an attorney, in allowing him to do that, in allowing him to testify, and made it very clear to Mr. Blum how I felt that this was prejudicial to Mr. Morales' well being and safety, and that there was nothing really to be gained by it.

Mr. Morales at this point is, regardless of having been a convicted drug smuggler or drug dealer, is, nevertheless, not a foreigner, but is an American. What he is actually doing here is simply out of a patriotic standpoint, something he personally cannot convey, and I don't know if he even has gleaned that. But that is the only reason that he can be here today.

Senator KERRY. Let me just say that I appreciate that.

We had discussion beforehand about the question, about those issues. I think the record ought to also show that he is currently under a grant of Federal immunity as to his activities involving the Contras, I believe.

Mr. YAVITZ. No, no.

What had happened is the U.S. attorney's office, through the Justice Department, secured an immunity grant, which took effect upon the court issuing an order to grant him immunity. But until he testified, and he has not testified, the immunity does not practically attach.

Senator KERRY. I totally understand that it does not attach. But it seems to me very difficult, given the order and the intent of the prosecutor, to not recognize that same intent under the cover of a congressional inquiry.

We don't need to go into that further here now. But I am certainly, on the basis of what you have said, inclined to want to seek some kind of response from the U.S. attorney, as well as from the DEA and possibly Customs. I think that we ought to know because this is precisely one of the areas of inquiry that we are concerned about in this committee—you know, what has happened that these kinds of activities are moving out of three Florida airports in the warm light of day without anything happening? And what happens when people have made themselves available and we go for months, and they are not called before grand juries, particularly when there has been as much interest as I think there has been on this.

I think that is a legitimate focus.

Let me keep going. I want to come back to something.

Mr. MORALES. May make something here for the record, Senator?

Senator KERRY. Yes.

Mr. MORALES. I am sure that my attorneys contacted the U.S. prosector's office long before that June 12, 1986, long before that, about my activities with the CIA and the Contras.

Senator KERRY. OK. We'll come back to that and there is some of that that we may have to pursue in a different session.

We still haven't got the full chronology here with respect to the guns and weapons, and I want to try to complete that.

How many flights did you specifically direct to take weapons and come back with narcotics?

Mr. MORALES. All this started, and other things, in——

Senator KERRY. Would you speak clearly into the microphone?

Mr. MORALES. Yes—in 1983—oh, 1984. In 1984, I did send right after my meeting with them two planeloads of weapons. One of them was leaving out of my office, and the other one left out of Executive Airport, in the plane that I bought for the Contras.

Senator KERRY. What kind of weapons did you ship in those shipments?

Mr. MORALES. I shipped some of the weapons given by them, and others.

Senator KERRY. What were they? What kind, specifically?

Mr. MORALES. They were M–16's, machineguns, some C–4, explosives, plastic explosives. I recall one, big, cannon, I don't know what it was, an M–60 or something like that. Ammunitions.

The plane was full. Both planes were full.

Senator KERRY. What were these weapons packed in?

How were they packed?

Mr. MORALES. Very poor packing. I mean, you can see the weapons through the boxes.

Senator KERRY. They were just dumped in boxes?

Mr. MORALES. Yes.

Senator KERRY. No wrapping around the weapons?

Mr. MORALES. Some of them, none whatsoever.

I did have those weapons in my office and I checked some of them. Some of them I shipped, some of them I did not because they were in poor condition.

Senator KERRY. What was the largest aircraft of weapons that you used, that you shipped out?

Mr. MORALES. The Titan.

After, in 1984?

Senator KERRY. [Nods affirmatively.]

Mr. MORALES. The Titan.

Senator KERRY. How many guns would you ship in that? Did you?

Mr. MORALES. I cannot tell, Senator.

Senator KERRY. Were all these guns bought on the open market in Miami?

Mr. MORALES. Some of them, yes. Some of them were given to me by the Contras in Miami.

Senator KERRY. Do you know where they came from in Miami?

Mr. MORALES. We had the discussion about where the guns come from because I was very upset because of the situation, that I was going to send a plane full of weapons, which did not pay the trip to send the weapons. I was very upset.

I recall calling to Popo Chammoro to advise him that it was very poor conduct, the organization, because I found a lot of weapons rusty, and those weapons were not going to be able to be used by the Contras.

Some of the weapons I bought them myself through different purchases in Miami.

Senator KERRY. The Titan shipment weighed about how much? Do you remember the weight?

Mr. MORALES. About 2,000 pounds. It was heavy, very heavy.

It was very heavy.

Senator KERRY. How many shipments of weapons did you personally oversee or take part in loading?

Mr. MORALES. The first time that I shipped the weapons was in 1983, July 1983, July to August 1983.

The second one was in July 1984, June or July 1984, right after I met with Octaviano and Chammoro.

Right after that, I took some of their pilots and trained them because Marcos Aguado did not want to deal with the situation because he was afraid, being a CIA, as he described he was, to being in the situation, in which he was going to get caught in between because of my reputation in south Florida as being a drug smuggler.

So, therefore, he suggest, Octaviano, that we should look for pilots others than the ones used to work for me, very familiar with the runways in Central America. That's exactly what we did.

Senator KERRY. Where did you look for those pilots?

Mr. MORALES. They were provided to me by the Contras.

Senator KERRY. Who supplied them?

Mr. MORALES. Chammoro, Cesar, and Marcos.

Senator KERRY. Did you train those pilots?

Mr. MORALES. Yes, I did. Many of them.

Senator KERRY. Where did you train them?

Mr. MORALES. I trained them in the Bahamas. I trained them in Opalaca Airport. Many times.

Senator KERRY. What did that training consist of?

Mr. MORALES. Specifically, how to operate a load, I mean a planeload of heavy weapons or drugs; to brief them in the way how to operate planes because there were very sophisticated machines and they were not used to that—some of them they were, some of them not.

I train them how to approach the runways in the Bahamas, how to approach the runway loaded, how to take off in the middle of the day loaded, how to transfer the fuel from the regular tanks to auxiliary tanks in order for us to have a long-fuel range.

Senator KERRY. How long did this training period take place?

Mr. MORALES. It took place that I recall from 1984 all the way to 198—the late 1985, beginning of 1986.

Senator KERRY. How many pilots were there that you trained?

Mr. MORALES. I would say probably eight, nine pilots.

Senator KERRY. And all of these pilots flew for you?

Mr. MORALES. Yes, they did.

Senator KERRY. Flew your aircraft?

Mr. MORALES. Yes, they did.

Senator KERRY. And they flew the shipments of guns?

Mr. MORALES. Yes, they did. Some of them did, some of them did just training. And it was never a time for them to fly the weapons.

Senator KERRY. In executive session, can you give us the names of those pilots?

Mr. MORALES. Yes.

Senator KERRY. Do you know where any of them are now?

Mr. MORALES. They are in Costa Rica.

Senator KERRY. All of them?

Mr. MORALES. As a matter of fact I believe—can you hold on one second? [Pause.]

Senator KERRY. Now, you were going through the shipments. You had a July shipment, et cetera. How many, can you complete that question of how many shipments there were?

Mr. MORALES. In July, were two of them, with guns down and drugs back from Costa Rica. Consequently, after that, there were quite a few trips from Colombia to the Bahamas.

I would say probably eight.

The first two, the first couple, maybe two or three, there were, I used the pilot as a copilot for the training. One of the Contra's pilots. And the rest of the trips he did it himself, as a pilot.

Late 1985, I flew myself to Costa Rica, and we discussed with them.

Senator KERRY. Who did you deal with in Costa Rica? Did you have to have a contact down there to pick up the drugs?

Mr. MORALES. I deal with the Contras. They had this special, they had this ranch, John Hull's ranch, which the plane——

Senator KERRY. All right. Where is this ranch?

Mr. MORALES. The ranch is in the south, I mean, the south of Nicaragua, north part of Costa Rica. We flew there——

Senator KERRY. Whose ranch? John Hull?

Mr. MORALES. John Hull's ranch.

Senator KERRY. Did you personally fly into that ranch?

Mr. MORALES. No, I did not.

Senator KERRY. But your pilots you say did?

Mr. MORALES. Yes, they did.

Senator KERRY. In your aircraft?

Mr. MORALES. Yes. They did in my own aircraft. Many times.

Senator KERRY. How many times?

Mr. MORALES. I recall with the guns and without guns.

Senator KERRY. With guns?

Mr. MORALES. And without guns.

There were some flights from El Salvador to Costa Rica, in which they land over there without guns. I'm not too sure if they have guns or not at that moment. Don't commit me to that.

Senator KERRY. Did you ever meet John Hull?

Mr. MORALES. Formally, I never did. No.

I saw him. I saw him. The first time I saw him, it was in my office in 1983.

Senator KERRY. What was that? He was in your office, but you didn't meet him?

Mr. MORALES. No. I did not want to.

Senator KERRY. Why didn't you want to?

Mr. MORALES. Mr. John Hull is very well known by many people in Colombia and Central America for his activities, and also has the reputation in which he is, I believe, being a CIA. And I didn't want no dealings with Government people other than what we already have established through Mr. Chammoro and Mr. Cesar.

So, there was no need for me to meet him.

Senator KERRY. Why did he come into your office?

Mr. MORALES. He came in 1983 to my office.

Senator KERRY. Was he alone?

Mr. MORALES. No. He was with Marcos Aguado. And also that was the first time that I recall seeing Mr. Gerardo Duran, who is one of the pilots who got arrested the same day in Costa Rica, for the coke shipment.

Senator KERRY. What did he come to your office for? Did you learn?

Mr. MORALES. He came to my office with a gentleman by the name of Gustavo.

Senator KERRY. I couldn't understand that.

He came to what?

Mr. MORALES. He came to my office with a gentleman by the name of Gustavo, a Colombian friend. And that was the first time I saw him.

The second time I saw him in Costa Rica, at the hotel. That was late 1984.

Senator KERRY. What hotel?

Mr. MORALES. Carriare.

Senator KERRY. What was the occasion of that meeting?

Mr. MORALES. I went over there to check the shipment of coke that was supposed to be flown from there to the Bahamas the next week or so.

Senator KERRY. A shipment of coke?

Mr. MORALES. Yes.

Senator Kerry. You went to the hotel to check it?

Mr. MORALES. No.

We had it in one of the safety houses. Or they had it in one of the safety houses.

Senator KERRY. Who did you meet with at the hotel?

Mr. MORALES. I meet with Mr. Carol Prado. I meet with Octaviano Cesar. I meet with several of them.

Senator KERRY. Why was John Hull there? Was he part of that meeting?

Mr. MORALES. Well, he was in the poolside. I did not know if he was part of, he was not part of the meeting.

Senator KERRY. He was not part of the meeting?

Mr. MORALES. No, he was not. He didn't took part any of my meetings, no. He was just in the pool with some of the pilots.

Senator KERRY. Did your pilots take weapons to John Hull's ranch?

Mr. MORALES. Yes.

Senator KERRY. Do you specifically know they landed there?

Mr. MORALES. Yes, definitely. No doubt in my mind.

Senator KERRY. Did they come back with anything in their planes?

Mr. MORALES. The first time they came with 400-and-some kilos of cocaine, came directly to Florida.

Senator KERRY. I'm sorry. I missed that.

Mr. MORALES. The plane came directly from Costa Rica to Florida. That was in July 1984. June or July 1984.

That was the first time.

The second time was 2 weeks after that. We sent, we flew some weapons out of my office.

Senator KERRY. Excuse me for one minute, please. [Pause.]

Do you remember when he first came? You say he came to your office at the airport. Had he flown into the airport?

Mr. MORALES. Yes, I believe so. As a matter of fact, I know for a fact.

Senator KERRY. You know he flew in?

Mr. MORALES. Yes.

He was there, and I remember——

Senator KERRY. Do you know what kind of plane he flew in in?

Mr. MORALES. November 666—I forgot the letters.

Senator KERRY. Why do you remember those letters?

Mr. MORALES. Senator, I used to have Push and Pull November 333, and I used to have also Twin Beech with the numbers of 33333.

So, it was called to my attention, this plane being 666. That's why I remember so much.

I mean, the Opalaca Airport, it is not that large of an airport.

Senator KERRY. I want to show you a set of documents here if I can.

Would you take those down to him [indicating]. [Pause.]

Do you recognize those? Do you know what those are?

Have you ever seen those before?

Mr. MORALES. No, I don't.

Senator KERRY. You've never seen that document?

Mr. MORALES. Never in my life.

Senator KERRY. Do you know what it is?

Mr. MORALES. It is sort of a Customs or Immigration entry.

Senator KERRY. And it's a Customs form from where?

Mr. MORALES. From—from—it was going to Miami, coming from MROC. I really don't know what that stands for.

Senator KERRY. What country, does it say?

Mr. MORALES. Are you talking about the first one, Senator?

Senator KERRY. Yes.

Mr. MORALES. No. No. This is, the airplane took off from someplace, to San Andres, and from San Andres it was going to go to Miami.

Senator KERRY. OK, San Andres Island; is that correct?

Mr. MORALES. Colombia, yes.

Senator KERRY. In Colombia.

And this is a Republic of Colombia Civil Aeronautic Filing Form of some kind?

Mr. MORALES. Yes, it is.

Senator KERRY. And do you recognize the aircraft number on that?

Mr. MORALES. The first one, November 666. The one I just described to you.

Senator KERRY. And the pilots are listed as?

Mr. MORALES. Marcos Aguado and John Hull.

Senator KERRY. Is that the same aircraft number?

Mr. MORALES. It was the same. It is the same.

Senator KERRY. And you've never seen that form other than that?

Mr. MORALES. Never.

Senator KERRY. Did you ever fill out that kind of form yourself?

Mr. MORALES. Never in my life. No. I never been in San Andres.

Senator KERRY. OK. You don't know what that is.

Let me turn you to the next document.

We'll mark that first document, just for identification purposes, as exhibit 1, and this will be exhibit 2.

Do you recognize what this is?

Mr. MORALES. Excuse me?

Senator KERRY. Do you recognize what this is, the document in front of you, the second document?

Mr. MORALES. Yes. It is a gas bill, a gas receipt.

Senator KERRY. Do you see the aircraft tail number there?

Mr. MORALES. November 666, Papa Fox.

Senator KERRY. OK. What kind of aircraft is that?

Mr. MORALES. That is a Beechcraft T-55.

Senator KERRY. Do you know that airplane?

Mr. MORALES. Yes, I know that airplane.

Senator KERRY. How do you know that airplane?

Mr. MORALES. I saw that airplane in Opalaca Airport in 1983.

Senator KERRY. Did you ever use that aircraft in drug trafficking?

Mr. MORALES. I believe so. We were going to use it once, in 1985, probably.

Senator KERRY. And under whose name is that entry recorded? This is a gasoline document.

Mr. MORALES. Yes. It's under Marcos Aguado.

Senator KERRY. All right.

Let me turn you to the next document, which we'll mark as exhibit 3.

What is that document?

What do you recognize that as?

Mr. MORALES. This is a gas receipt.

Senator KERRY. Are these used at your airport?

Mr. MORALES. Excuse me?

Senator KERRY. Did you ever fill out these kinds of forms?

Mr. MORALES. My people did, yes.

Senator KERRY. Are these used at your airport?

Mr. MORALES. No. I never see this.

Senator KERRY. But would you use these when you flew into Costa Rica?

Mr. MORALES. From my office? Yes.

Senator KERRY. These forms?

Mr. MORALES. Yes. Yes, many times.

Senator KERRY. And what's the aircraft number on that receipt?

Mr. MORALES. November 9-1-Charlie——

Senator KERRY. Bravo.

Mr. MORALES [continuing]. Bravo, I believe.

Senator KERRY. And the aircraft type?

Mr. MORALES. It's a Beechcraft 55 also, from San Andres to——

Senator KERRY. And the date?

Do you see the date on that?

Mr. MORALES. It's 83-6-25.

Senator KERRY. And the name of record on the flight?

Mr. MORALES. John Hull, as pilot, I guess.

Senator KERRY. And that aircraft number, does that aircraft number tell you anything?

Mr. MORALES. Not whatsoever, no. Not that I remember.

Senator KERRY. You don't have any memory of ever seeing that aircraft?

Mr. MORALES. No.

Senator KERRY. You never used that aircraft in drug trafficking?

Mr. MORALES. Not that I remember.

Senator KERRY. The next document—what do you recognize that to be? I think there are two pages to the next document: the Quality Inn Airport Motel. Is that correct?

Mr. MORALES. Yes, sir.

Senator KERRY. Are you familiar with any meetings that took place on June 26 at that hotel with, I guess—do you know who—the two names on that are Mr. John Hull and Gerardo Duran; correct?

Mr. MORALES. I know both of them very well.

Senator KERRY. Who are Gerardo Duran?

Mr. MORALES. Gerardo Duran is the gentleman in charge of the training of the whole pilots for the Contras. He was the one who took the place from Marcos Aguado to do the flights for me.

Senator KERRY. Did you have dealings with Gerardo Duran?

Mr. MORALES. Many of them.

Senator KERRY. What kind of dealings did you have with him?

Mr. MORALES. I train him as a pilot.

Senator KERRY. Did he run drugs for you?

Mr. MORALES. Yes, he did.

Senator KERRY. He did?

Mr. MORALES. Yes.

Senator KERRY. And guns?

Mr. MORALES. Yes, he did.

Senator KERRY. And on this particular motel bill, where he is listed with Mr. John Hull, did you have a meeting with them at that hotel?

Mr. MORALES. I had several meetings in that hotel—not on that particular day.

Senator KERRY. But not this day. You weren't there?

Mr. MORALES. Not this day, no.

Senator KERRY. You would use this hotel, however.

Mr. MORALES. With them, yes.

Senator KERRY. Do you recognize the signatures on the second page?

Mr. MORALES. You mean the——

Senator KERRY. Either of them.

Have you seen those signatures before?

Mr. MORALES. Yes, yes.

Senator KERRY. What are those signatures?

Mr. MORALES. That's the signature of Gerardo Duran.

Senator KERRY. Do you recognize that as his signature?

Mr. MORALES. Yes.

Senator KERRY. All right.

Thank you.

Now, turning to the next document, that's a Texas Petroleum gas receipt?

Mr. MORALES. Yes, it is.

Senator KERRY. What aircraft number does that record?

Mr. MORALES. November 666 Papa Fox, Beechcraft.
Senator KERRY. That's the same Beechcraft as before?
Mr. MORALES. That's the same one. The same number as before.
Senator KERRY. Is that the same aircraft?
Mr. MORALES. That I saw in my place in 1983?
Senator KERRY. Is that the same one?
Mr. MORALES. The same one—the same number.
Senator KERRY. And the date of this is when?
Mr. MORALES. It's 83-6-25.
Senator KERRY. And the name listed on it?
Mr. MORALES. Marcos Aguado.
Senator KERRY. That plane—for the record, did you state earlier whether or not that plane was used in narcotics trafficking?
Mr. MORALES. Yes, it was.
Senator KERRY. It was.
Mr. MORALES. To my knowledge, though.
Senator KERRY. Excuse me one second. [Pause.]
The documents thus far identified will bemade a part of the record.
[The information referred to appears in the appendix.]
Senator KERRY. Notwithstanding their being part of the record, we're going to hold those particular documents in committee at this point in time. They will not be released until further documentation has been established regarding them.
You had a series of meetings in Costa Rica, Mr. Morales; is that correct?
Mr. MORALES. Yes, I did, Senator.
Senator KERRY. In 1984?
Mr. MORALES. Yes, I did.
Senator KERRY. Were those meetings also with the same group of people you have described thus far?
Mr. MORALES. Yes.
Senator KERRY. They were with Popo Chammoro, Marco Aguado.
Mr. MORALES. Commandante Tito.
Senator KERRY. OK.
Who else?
Mr. MORALES. Carol Prado, and——
Senator KERRY. Would you describe who Commandante Tito was?
Mr. MORALES. Commandante Tito is, he was the second one in command in the field, field command, after Eden Pastora.
Senator KERRY. And you met with him in Costa Rica?
Mr. MORALES. Yes, I did.
Senator KERRY. What was the substance of those discussions?
Mr. MORALES. I was looking for—can you hold on for one second, please? [Pause.]
My discussions with Commandante Tito——
Senator KERRY. Now if I could ask you to wait for one second. [Pause.]
Excuse me, Mr. Morales.
Please proceed.
Mr. MORALES. My conversations with Commandante Tito arrive from a series of threats to my life in 1984, and I did request for them to supply with some of the best soldiers to be my bodyguards.

Senator KERRY. Did they grant that?

Mr. MORALES. Say that again, please?

Senator KERRY. Did they give you them? Did you get the bodyguards?

Mr. MORALES. No. They never arrived to Miami.

I did not like the way they carry themselves, and I didn't think it was proper, the proper people for me at that time.

Senator KERRY. When you were in Costa Rica, did you have discussions about drug trafficking?

Mr. MORALES. Yes, I did.

Senator KERRY. Who did you have those discussions with?

Mr. MORALES. Mr. Chammoro, Mr. Octaviano, and the pilots, the rest of the pilots.

Senator KERRY. Now let me ask you a couple of hard questions, though maybe they're not hard.

Do you know—I don't want you to guess, I don't want you to surmise, I don't want you to sort of have an opinion—but do you know personally whether or not other narcotics suppliers were also assisting the Contras?

Mr. MORALES. Yes, I know.

Senator KERRY. You know that?

Mr. MORALES. Yes, they did.

Senator KERRY. Were they?

Mr. MORALES. Yes.

Senator KERRY. How do you know that?

Mr. MORALES. Because I have many conversations with them about the same situation. Some of my friends——

Senator KERRY. These are people you know to be in the business?

Mr. MORALES. Yes.

Senator KERRY. How much money did you personally direct toward—strike that.

How much—can you estimate the amount of narcotics in dollars that you shipped back as part of this scheme for transfer of weapons down there?

Mr. MORALES. How much was the money?

Senator KERRY. How much money in narcotics value was brought back in as part of this linkage in 1984 and 1985?

What was the street value of the drugs that came in?

Mr. MORALES. Many, many, many millions of dollars. Many millions of dollars. Many.

Senator KERRY. Can you give us an estimate of the kilos of cocaine?

Mr. MORALES. In 1984, the kilos of cocaine in July were going around $32,000, $34,000, $35,000 a kilo. That is $35 million right there, in July.

Senator KERRY. It's $35 million?

Mr. MORALES. In July.

Senator KERRY. In July.

Mr. MORALES. July, yes.

And after those two trips, we did six more that every one of them brought to the Bahamas 2,500 pounds of marijuana. Six—or eight—I do not remember exactly—to which the pilot was, like I testified before, as a copilot, the rest of them, he was a pilot. Those,

let's put it at six trips, involved 2,500 pounds of marijuana. That's 9,000 pounds of marijuana.

Senator KERRY. What is the period of time for the 9,000 pounds of marijuana?

Mr. MORALES. From July to October.

Senator KERRY. July to October.

Mr. MORALES. Maybe, maybe—not October, because right in November was when I had to be ready for the water champion in 1984, and it was the same time when I took——

Senator KERRY. OK. You were still boat racing during all of this?

Mr. MORALES. Oh, all the time, yes.

Senator KERRY. All the time.

Mr. MORALES. Yes.

Senator KERRY. Even after you were indicted?

Mr. MORALES. The second time I did it at their request.

Senator KERRY. No, no. You were still racing your boats even after you were indicted?

Mr. MORALES. Yes, I did.

Senator KERRY. Up until the time you went to jail?

Mr. MORALES. Yes, I did.

Senator KERRY. So, 9,000 pounds of marijuana until about October.

Mr. MORALES. At that time, it was around $330——

Senator KERRY. What's the value of the 9,000 pounds?

Mr. MORALES. The wholesale value was $330. Retail value was around $500, in the streets.

Senator KERRY. $500?

Mr. MORALES. Dollars a pound in the streets.

I never went to the retail value myself. I used to give the whole load to just——

Senator KERRY. You just wholesaled?

Mr. MORALES [continuing]. One person, and he would take care of the whole situation?

Senator KERRY. And that was it?

Mr. MORALES. Yes.

I sold him at around $330 a pound. That is 9,000 pounds times $330.

Senator KERRY. Did the cocaine continue to come in after October or November 1985?

Mr. MORALES. Right after my meeting with them in late December 1984, yes.

Senator KERRY. No. It's 1985 now.

When did it stop? When was the last shipment?

Mr. MORALES. After I—before I got arrested. The last shipment was on June 8, 1986.

Senator KERRY. OK.

Mr. MORALES. No. I'm sorry. January 8, 1986.

Senator KERRY. January 8, 1986.

Mr. MORALES. That was the last trip with the 421 kilos of cocaine. Sorry—413 kilos of cocaine.

Senator KERRY. Where did that trip come from? Where did it originate?

Did that take weapons down?

Mr. MORALES. Costa Rica. Costa Rica.

Senator KERRY. Did the flight come from Florida?

Mr. MORALES. Florida.

Senator KERRY. Did it take weapons?

Mr. MORALES. No weapons down.

Senator KERRY. Just narcotics?

Mr. MORALES. Narcotics coming back.

Senator KERRY. Were the narcotics that came back, did those narcotics, was that a separate pickup? Did you get them through the same people in Costa Rica?

Mr. MORALES. Every one of my deals——

Senator KERRY. I'm sorry. I didn't understand.

Mr. MORALES. Excuse me. Every one of the dealings that I have through Costa Rica, every one of them had to do with the Contras. I never did any on my own, or somebody else. I didn't need, I didn't have the need to go to Costa Rica.

Senator KERRY. Did anybody explain to you why the Contras were turning to drugs or using drugs?

I mean, did you ask for an explanation, or did you care?

Mr. MORALES. It was, yes, we had several meetings about that. It was the lack of help from the United States to them, in part. They were struggling for money, for supplies.

Senator KERRY. Now I want to come back to one other question.

What happened to the law enforcement efforts down there that you were able to just fly this stuff in and out of the airports with impunity?

Mr. MORALES. Everybody was about. We took care of everybody over there, in the airport, in the ranch.

Senator KERRY. In Miami?

Mr. MORALES. No, no. I'm talking about south.

Senator KERRY. In Costa Rica?

Mr. MORALES. Yes.

Senator KERRY. What about Miami?

How do you just fly in and out of Miami with guns? Didn't anybody ever ask about an arms export control act, or say "What are you doing taking weapons out, or are those guns?"

Did anybody ever walk up and say "What's that shipment?"

Mr. MORALES. Never. We never had that fear, either. It was never in our minds that someone, something like that will happen.

Senator KERRY. Were there Customs at each of those airports?

Mr. MORALES. Yes, at every one of them.

Senator KERRY. Were there any arrangements with any of the Customs officials at any of those airports?

Mr. MORALES. No. Not to my knowledge.

Senator KERRY. None to your knowledge.

Mr. MORALES. The guns, I was told, I was told by Marcos Aguado that he was the one who was going to take care of that situation.

He told me do not worry. "We have officials around the plane." Those were his exact words. We have, I am going to be, we have officials around the plane.

Senator KERRY. Now, when the drugs flew back in, did they come in in daytime or nighttime?

Mr. MORALES. They come in in nighttime. A few of them in daylight. But a few of them.

In the United States, they came twice at night. The rest of them came daytime.

Senator KERRY. Now here you are. You have been indicted before. You have a known reputation in the region as a narcotics trafficker. You are leading a pretty flashy lifestyle. You have helicopters, planes at your disposal, you are racing fast boats, with a lot of money moving around. And you're telling us that at this airport, with all of this knowledge about you, you were still able to move around without any fear?

Mr. MORALES. I was very, very surprised myself. [Laughter.]

But, in fact, in fact that was what happened, Senator. It happened that way. That is the fact. And not only one time. Many times. Many times.

I remember one time, as a matter of fact, when the agents asked one of the mechanics who used to work in my plane like this, did Morales airplane left already? That's exactly what he told me. I don't know if it does. You can tell if it's true or not, but I remember that particular time.

Senator KERRY. What were the circumstances of your finally being arrested in June 1986?

Mr. MORALES. How that happened?

Senator KERRY. [Nods affirmatively.]

Mr. MORALES. They just went to my house and arrest me in my house. There was a helicopter. [Pause.]

That was June—the last shipment, coke.

Senator KERRY. The last shipment?

Mr. MORALES. It's 413 kilos of cocaine from south, sorry, from Costa Rica to the Bahamas.

Senator KERRY. Why didn't you get away with that one, since you had done it with such impunity up until them?

Mr. MORALES. At that time, Mr. Gerardo Duran and the other pilot were busy doing some other activities in Costa Rica. Therefore, they asked me to look for a pilot, which I did.

I talked to my accountant and I told him to find a pilot. We did and we failed.

That was the DEA informer, the DEA guy.

Senator KERRY. So, you found a DEA informer as a pilot?

Mr. MORALES. Yes. He was the one who flew the plane back to the Bahamas, and he was the one who told the BIA, I mean, the Customs, citations, planes, helicopters, the Bahamas, and Operation BAT—B-a-t—about the plane that was coming from Costa Rica to the Bahamas.

Senator KERRY. OK.

I'm going to let counsel proceed here with a few questions while I just review some things here to make sure I have covered all my areas. Then we will see where we go.

Mr. BLUM. Mr. Morales, I'd like to return to a flight that was made in December, as I understand it, 1984. You met in Costa Rica at a hotel; is that correct?

Mr. MORALES. The flight took off from Costa Rica on December 26 or 27.

Mr. BLUM. Where did that flight leave from?

Mr. MORALES. It took off from Tamarindo Airport.

Mr. BLUM. And where did that flight go to?

Mr. MORALES. It was going to go to Great Harbor. But the flight never occurred, never went through. The pilot was flying at that time. He flew over Nicaragua, and had some problems with the air force of Nicaragua, and had to come back to this particular airport and unload the drugs.

Senator KERRY. Mr. Morales, what I'm going to do is recess for about 45 minutes now, to give you a chance to have a break and get a little lunch.

Mr. MORALES. Can I mention——

Senator KERRY. Let me just say that we're going to come back at 2 into some period of continued open session before going into executive session.

There is some information about how you got frequencies, how you knew what the Coast Guard was doing, and other things that I want to pursue with you, as well as a couple of other areas.

Mr. YAVITZ. We'd like to correct the record.

Senator KERRY. So, if I could ask people to remain seated while the marshals escort the witness out, then we will be back here at 2 o'clock in open session.

Mr. YAVITZ. Excuse me one moment.

Senator KERRY. Yes.

Mr. YAVITZ. The flight that he was talking about was December 1985, rather than 1984.

Mr. BLUM. We'll straighten that out when we get back after lunch.

Senator KERRY. Right. I understand that.

We stand recessed until 2 o'clock.

[Whereupon, at 1:15 p.m., the committee was recessed, to reconvene at 2:15 p.m., the same day.]

AFTERNOON SESSION

The subcommittee met at 2:15 p.m. in room SD-419, Dirksen Senate Office Building, Hon. John Kerry (chairman of the subcommittee) presiding.

Present: Senator Kerry.

Also present: Jack Blum, subcommittee staff.

Also present: Sheldon Yavitz, Esq., Miami, FL, counsel to Jorge Morales.

Senator KERRY. The hearing will come back to order.

We will proceed, as I said before the break, with a completion of some of the testimony in open session, and then we will go into closed session to pursue some of the issues that came up earlier.

Let me just come back to one or two areas quickly, and then I want counsel to pursue the area that he was beginning to pursue before the break, and then I will come back at the end.

Just quickly, Mr. Morales, isn't it a fact that you during 1984 and 1985, you continued to give money to the Contra figures you've identified because you personally believed that your case was going to be assisted by doing that? Is that accurate?

Mr. MORALES. Yes, it is.

Senator KERRY. How did you come to believe that your case pending before the Federal court could be affected by these actions?

Mr. MORALES. Because it is a fact that eventually, after I started doing business, if you want to call it that——

Senator KERRY. Again, let me ask you to speak close to the microphone and speak slowly and clearly.

Mr. MORALES. Because right after the fact that I had the meeting with these gentlemen, it was a fact that I see my case going away. I used to know in advance what was going to be happening in court.

Senator KERRY. In court?

Mr. MORALES. Yes. They used to tell me about it.

Senator KERRY. How would you know in advance what would happen?

Mr. MORALES. They used to tell me about it.

Senator KERRY. Who would tell you?

Mr. MORALES. Octaviano. Yes, Octaviano.

Senator KERRY. He would tell you what was going to happen to your case?

Mr. MORALES. Yes.

Senator KERRY. Did the things he tell you in fact happen?

Mr. MORALES. Every one of them.

Senator KERRY. Specifically what?

Mr. MORALES. That they were going to postpone the case, that many times that I have a meeting with him we specifically sit down and talk about the case, and one time he told me, toward the end of 1985—1984, I'm sorry, that he was going to talk directly with the Washington people. He mentioned a few names.

He came back and had a meeting with me and we have the meeting again in which he assured me that it was going to be no problem whatsoever.

Senator KERRY. When you say he mentioned names, without mentioning the names, did he mention the names of people in law enforcement or in politics?

Mr. MORALES. Politics.

Senator KERRY. Elected officials?

Mr. MORALES. Yes.

Senator KERRY. OK.

Mr. MORALES. And also in law enforcement.

Senator KERRY. Also what?

Mr. MORALES. Law enforcement.

Senator KERRY. Now, during 1984 when you were helping to ship weapons to Costa Rica, were you aware at that time of other supply efforts to the Contras?

Mr. MORALES. Some of them, yes.

Senator KERRY. Which ones?

Mr. MORALES. Some of the people in the business were helping the Contras.

Senator KERRY. Like who?

Mr. MORALES. Helping the same group of people, the same group of contra leaders in Costa Rica.

Senator KERRY. But who were the people that were helping them?

Mr. MORALES. Senator, I believe we've already been through the same question and we were supposed to have that in closed session, as is customary.

Senator KERRY. OK, so that falls in that group of names that you want to talk about.

Mr. MORALES. Yes.

Senator KERRY. During that period of time, were you aware of Southern Air Transport?

Mr. MORALES. No, sir.

Senator KERRY. You never had any contact with Southern Air Transport?

Mr. MORALES. None whatsoever.

Senator KERRY. Were you ever asked to aid in any of the resupply efforts other than the weapons, any of the flights that resupplied Contras over Nicaragua itself?

Mr. MORALES. Besides the ones I did myself, the ones I did?

Senator KERRY. Well, did you fly flights over Nicaragua?

Mr. MORALES. No.

Senator KERRY. So, besides the flights that you flew weapons, did you ever fly any other supply missions?

Mr. MORALES. No.

Senator KERRY. Were you aware of other supply missions?

Mr. MORALES. Yes.

Senator KERRY. And how were you aware of them?

Mr. MORALES. Through them. They disclosed many times about the situation and other groups of people helping them out in the same effort.

Senator KERRY. Did they ever mention the name of General Secord?

Mr. MORALES. Not to my recollection.

Senator KERRY. Or of Oliver North or any of the other individuals?

Mr. MORALES. No.

Senator KERRY. What about Rob Owen?

Mr. MORALES. Yes.

Senator KERRY. They mentioned the name of Rob Owen?

Mr. MORALES. Yes, they did.

Senator KERRY. Who mentioned the name? What were the circumstances of that?

Mr. MORALES. That he was in charge of, to help square away the situation between the Government of the United States, the Embassy, and the Contras in Costa Rica.

Senator KERRY. When was that? Let's be more precise here.

Mr. MORALES. 1984, late 1984.

Senator KERRY. Was this in one of the meetings with the leaders with Chammoro and——

Mr. MORALES. Yes, with Chammoro.

Senator KERRY. And how did his name come up?

Mr. MORALES. I really do not recall, Senator.

Senator KERRY. But you recall his name being raised?

Mr. MORALES. Yes, I do recall it. He was talking this particular thing.

Senator KERRY. Did you ever meet him?

Mr. MORALES. Not that I know of.

Senator KERRY. Did you ever have any dealings with him?

Mr. MORALES. No. And I have seen him in so many meetings that I have with so many American people in Costa Rica, so I do not recall specifically talking to him, no.

Senator KERRY. Did any of your pilots additionally fly for other people besides you, or were they exclusively flying missions for you?

Mr. MORALES. No, they did fly for some other people.

Senator KERRY. They did. Did they also fly for themselves?

Mr. MORALES. Yes, they did, some of them they did. Some of them not.

Senator KERRY. Now, when you flew—strike that.

Did you know how to evade the surveillance of the Coast Guard and others, Drug Enforcement, et cetera?

Mr. MORALES. Yes, we did.

Senator KERRY. Can you describe that to us? What were the measures that you had to take to avoid detection, and how did you know about them?

Mr. MORALES. It was not that much measures to avoid the surveillance.

Senator KERRY. Say that again?

Mr. MORALES. It was not that much to do about it. It was very easy for us to do it.

Senator KERRY. Why was it easy?

Mr. MORALES. Because we knew the frequency. We knew how to get in and out. As a matter of fact, that was the main point, to get in.

Senator KERRY. In where?

Mr. MORALES. In United States.

Senator KERRY. How would you get into the United States?

Mr. MORALES. By boat, by plane.

Senator KERRY. But did you have—wasn't the Coast Guard patrolling?

Mr. MORALES. Yes.

Senator KERRY. How did you avoid the Coast Guard patrol?

Mr. MORALES. We had frequencies on every one of them locally, agencies.

Senator KERRY. You had every one of the frequencies?

Mr. MORALES. Every one of them.

Senator KERRY. Did you have similar radio equipment?

Mr. MORALES. Yes, we did.

Senator KERRY. And how did you get those radio frequencies?

Mr. MORALES. You just can buy them in a store. You can buy them in any store, any radio store.

Senator KERRY. You can buy the radio?

Mr. MORALES. In any radio store, like Radio Shack.

Senator KERRY. How did you know what frequency to tune the radio into?

Mr. MORALES. I was given by some of the Contras, I was given by some of the Cuban people, and also through a foreign country, which pretty soon we're going to go to that one in closed session.

Senator KERRY. Now, let's divide this up carefully and precisely. You say some of the frequencies were given to you by Cuban people?

Mr. MORALES. Yes.

Senator KERRY. Coast Guard frequencies were given to you by the Cubans?

Mr. MORALES. Coast Guard, Secret Service, DEA, police, Immigration, Customs.

Senator KERRY. All by the Cubans?

Mr. MORALES. Yes.

Senator KERRY. What frequencies did the Contras give you?

Mr. MORALES. Some of the Customs and local police in Miami.

Senator KERRY. Did you have special frequencies in the countries you landed in?

Mr. MORALES. Yes, we did.

Senator KERRY. Who arranged for you to have those frequencies?

Mr. MORALES. I did.

Senator KERRY. How did you get them?

Mr. MORALES. I have a code. It's in the radio. You just put the code.

Senator KERRY. How did you get the code?

Mr. MORALES. You just put it in the radio, and previously to flying you arrange that.

Senator KERRY. Who gave it to you, the code?

Mr. MORALES. I did.

Senator KERRY. But you can't make up a code if somebody else doesn't understand what it means.

Mr. MORALES. Oh, yes. You can put it in the radio. It's like a transponder.

Senator KERRY. Transponder?

Mr. MORALES. You can put the numbers 113 or 103 or 133, and that's all.

Senator KERRY. But did somebody in Costa Rica tell you, these numbers will work?

Mr. MORALES. I had them and I gave them to Popo and to Geraldo. They used to do the arrangements.

Senator KERRY. What other countries besides Costa Rica and the Bahamas did you fly into?

Mr. MORALES. With drugs? With and without it?

Senator KERRY. To get drugs.

Mr. MORALES. Colombia.

Senator KERRY. And any others?

Mr. MORALES. Haiti.

Senator KERRY. Any others?

Mr. MORALES. No.

Senator KERRY. So, the Bahamas, Haiti, Colombia?

Mr. MORALES. And Costa Rica.

Senator KERRY. And Costa Rica.

Now, did you also have a special frequency that you—did you communicate by special telephone with the leaders? Did you have some special means of communication?

Mr. MORALES. Yes.

Senator KERRY. Or was it just by regular telephone?

Mr. MORALES. Yes, I did, I had a special frequency, Cinco Sarban 153.

Senator KERRY. Where was this based?

Mr. MORALES. It was based in the north. They have a few bases. They have one in the north and south of Costa Rica, and they have

one in the main house, in the main safety house, also in San Juan, Costa Rica.

They had a few of them inside Nicaragua. I remember talking to Mr. Chammoro from inside Nicaragua or the border, the river. Sometimes the communications was bad; we'd have to use the phone.

Senator KERRY. Were these telephone communications you made when you were in Costa Rica or in the air or in Miami?

Mr. MORALES. I was in my office, in my home.

Senator KERRY. In Miami?

Mr. MORALES. Yes.

Senator KERRY. Did you have a special antenna in your office?

Mr. MORALES. Yes, I did.

Senator KERRY. And a special radio system?

Mr. MORALES. Yes, I did, the same equipment that I have in the planes, too.

Senator KERRY. All right. Let me let counsel proceed here for a while and we will come back.

Mr. BLUM. Before we broke for lunch, I was beginning to ask you about a trip in 1984, December 1984, from Costa Rica to Great Harbor in the Bahamas. I would like to go back to the origins of that trip.

You said you had a meeting in Costa Rica in a hotel; is that correct?

Mr. MORALES. Yes, I did. That was late 1984, December 20.

Mr. BLUM. And who was present in that meeting of December 1984?

Mr. MORALES. I had several meetings. There was Popo——

Mr. BLUM. Popo Chammoro?

Mr. MORALES. Popo Chammoro. There was Mr. Octaviano Cesar, Commandante Tito, Carlo Prado.

Mr. BLUM. Carlo Prado.

Mr. MORALES. And about probably six or eight pilots, Costa Rican pilots.

Mr. BLUM. Were drugs discussed at those meetings?

Mr. MORALES. Yes, we did.

Mr. BLUM. And what was the discussion? Was it that drugs were going to be brought back into the United States?

Mr. MORALES. Yes.

Mr. BLUM. Who was to supply those drugs?

Mr. MORALES. I do not have no idea, other than the Contras.

Mr. BLUM. In other words, the group—from that group, there would be drugs given to you?

Mr. MORALES. Yes. I would make one point in that situation. I had never used Costa Rica for fuel stop. Every one of the trips that I went to Costa Rica with the Contras, they were supplying the drugs. I was never supplying the drugs.

I didn't need to go all the way to Costa Rica, because I had my suppliers directly from Colombia.

Mr. BLUM. So, they told you that there were drugs, those drugs were drugs they wanted to get into the United States. Was there one specific person in the group who talked about it?

Mr. MORALES. No.

Mr. BLUM. It was a general conversation?

Mr. MORALES. General conversation.

Mr. BLUM. How much cocaine did then get delivered to you to put on the plane?

Mr. MORALES. That day, 320 kilos. There were two trips. There was some confusion over there. It was 161 in one trip and 320 in another trip.

Mr. BLUM. All right. Now, what was the first trip?

Mr. MORALES. It was 160 kilos.

Mr. BLUM. And that trip started from what airport?

Mr. MORALES. It started from Costa Rica to Great Harbor, the Bahamas.

Mr. BLUM. And did it get to Great Harbor?

Mr. MORALES. Yes. That was in the beginning in 1985, the very beginning.

Mr. BLUM. What was the plane that was used; do you recall?

Mr. MORALES. Yes, it was a Titan.

Mr. BLUM. And do you know who the pilot was?

Mr. MORALES. It was Mr. Geraldo Duran.

Mr. BLUM. And what happened to the drugs after the plane was unloaded at Great Harbor?

Mr. MORALES. I took the drugs and I was there, and I sent them to Miami, actually sent it to Miami. I was aware—I was present at the time when the plane landed. I took the precautions that needed to be done. I flew back to Miami, and later on I received the drugs in Miami.

Mr. BLUM. You then took possession of the drugs in Miami?

Mr. MORALES. Not myself, the people who used to work for me.

Mr. BLUM. Your organization.

Mr. MORALES. Yes.

Mr. BLUM. Your organization sold those drugs?

Mr. MORALES. Yes, we did.

Mr. BLUM. And what happened to the money which was the proceeds of this sale?

Mr. MORALES. We sent the money to the Contras.

Mr. BLUM. And who took that money for the Contras?

Mr. MORALES. Different pilots. Francesco Ugalde. We used to call him General Franco.

Mr. BLUM. And that was taken in the form of cash out of the United States on later flights?

Mr. MORALES. Cash, and some other money was taken by Geraldo through the international airport.

Mr. BLUM. Let me go to the second flight from Costa Rica. Again, was that a flight to Great Harbor, December 1984? You said 200 some kilos?

Mr. MORALES. No, it was early 1985.

Mr. BLUM. That was early 1985.

Mr. MORALES. The plane, the 666, crashed, I believe, I understand.

Mr. BLUM. That crashed?

Mr. MORALES. I understand that.

Mr. BLUM. All right. Was there ever another flight from Costa Rica to Great Harbor involving cocaine?

Mr. MORALES. December 1985 and January 1985—1986, I'm sorry.

Mr. BLUM. OK. Apart from 1986, then, there were a total of two flights with cocaine?

Mr. MORALES. More than two. There were two in July, July or August. It was 1984. There was one in December—no, I am sorry.

Mr. BLUM. We just talked about 100 kilos of cocaine.

Mr. MORALES. No, 160.

Mr. BLUM. 160.

Mr. MORALES. 161, to be exact. 161, 163. I'm not—that was in the earlier 1985.

Mr. BLUM. Earlier 1985?

Mr. MORALES. Yes, very early. After that, we did in 1985 another flight, December 27, from Costa Rica to Great Harbor.

Mr. BLUM. And how much was on that flight?

Mr. MORALES. We didn't fly—we didn't make a flight Otonorundo Airport to Great Harbor.

There were 421 kilos.

Mr. BLUM. And what happened to that flight?

Mr. MORALES. The pilot for some reason flew over Nicaragua and had some problems with the air force in Nicaragua. Therefore, he had to come back to the same field.

After that, that was when I told my man to get a new pilot, and——

Mr. BLUM. That's when you had a pilot who was a DEA informant?

Mr. MORALES. That's right, and he picked up 415 kilos. There were eight missing in the runway because when the plane came back it took a little time for the people to get it all squared away, to recuperate the merchandise.

Mr. BLUM. Now I would like to go back to the question of your knowledge and meeting with John Hull and your awareness with John Hull. When did you first hear about John Hull?

Mr. MORALES. Early in 1980, 1981.

Mr. BLUM. What did you hear about him and who did you hear it from?

Mr. MORALES. I hear it from Colombian friends, which the situation is that they like to go between different areas, rather than to go from Colombia directly to the Bahamas. So, they look for places to stash the merchandise, points for fuel stops.

And that's when I became aware of Mr. John Hull. That was by 1981.

Mr. BLUM. So, you heard of him from associates in Colombia, that his ranch was a facility for refueling and storing drugs, refueling drug flights; is that correct?

Mr. MORALES. It is very well known, that fact.

Mr. BLUM. Now, when did you first see him? You mentioned the office, your office.

Mr. MORALES. That was in July, June 1983.

Mr. BLUM. And what was he doing there, again?

Mr. MORALES. He was with Mr. Gustavo Velez, a Colombian friend of mine.

Mr. BLUM. What was the purpose?

Mr. MORALES. The purpose was to deliver to Salvador—it was a discussion to Salvador, Costa Rica. We had 48 grenade launchers. I

86-477 O - 88 - 4

put 40 in the plane and the plane took off toward Salvador with grenade launchers in some boxes.

Mr. BLUM. In other words, he wanted to ship 40 grenade launchers from Opalaca to El Salvador?

Mr. MORALES. I did.

Mr. BLUM. And your cargo airline—you were also in the air charter business—flew those grenade launchers for him; is that correct?

Mr. MORALES. Yes, we did.

Mr. BLUM. And you didn't personally meet him, but you knew that that shipment occurred?

Mr. MORALES. I saw him right in the lobby of my office. I did not introduce—I was not introduced to him formally. I didn't want to. The purpose of him being here was to be introduced to me. I did not want whatsoever to talk to him.

Mr. BLUM. To your knowledge, was there an export license for the grenade launchers?

Mr. MORALES. No, there was not.

Mr. BLUM. Do you know where the grenade launchers came from?

Mr. MORALES. I do not recall if we bought them or if it was given by Gustavo. I recall having the grenade launchers in a warehouse that I used to have on 135th Street and 17th Avenue, Miami.

Mr. BLUM. These were grenade launchers that came out of your supply?

Mr. MORALES. I do not recall if we bought them or Gustavo supplied them. I do recall that we had the grenade launchers in my warehouse.

Mr. BLUM. And when did you next see John Hull?

Mr. MORALES. 1984, December.

Mr. BLUM. And where was that?

Mr. MORALES. In Carlare Hotel, Costa Rica.

Mr. BLUM. Did you actually meet him on that occasion?

Mr. MORALES. No. I saw him right in the bar on the pool.

Mr. BLUM. You were sitting with your group of people talking?

Mr. MORALES. He was right there.

Mr. BLUM. He was sitting at the same bar, but you never in fact met him?

Mr. MORALES. Right, in the same bar.

Mr. BLUM. Your pilots did report to you, however, that they flew to his ranch; is that correct?

Mr. MORALES. Yes, many times.

Mr. BLUM. And refueled there and returned back to the United States?

Mr. MORALES. They did.

Senator KERRY. At this point in time, we are going to recess long enough to let me get to the floor and vote and return. We will stand in recess until I get back.

[Recess.]

Senator KERRY. We will reconvene. The hearing will come back to order.

We intend to proceed a little further here. Let me just take a moment, if I can, for you people to give you a sense of where we're going here.

I would obviously like to be able to proceed with a series of hearings as rapidly as possible. But we have some limitations in staff and ability to be able to pursue all the leads that we have as rapidly as we would like. But we do intend to hold further hearings.

Earlier this morning, Senator McConnell alluded to some hearings potentially next week. As some of you know, we had an individual testify in closed session a little over a week ago. It may or may not be possible to have that session open to the public.

It is my hope certainly to be able to do so as fast as possible; in addition, to be able to have additional witnesses, no matter what they may or may not have to say.

But I want to emphasize that these hearings are obviously incomplete, and there is no pretention on the part of the chairman or, I think, any member of this committee to insinuate or to leave a perception in anybody's mind that one story is somehow fait accompli as to the entire picture. It is not.

There is much yet to be discovered, much to be corroborated, much work to be done.

But I also want to point out to the members of the press and observers that this is not the first witness who has made very serious allegations, which follow a pattern of how a fervor to put into place supply lines to the Contras and how a fervor to keep them alive at any cost may have opened up channels for abuse of other sorts.

I emphasize at this point that there is no evidence that some high-ranking official in the administration or elsewhere approved of that. But that's not the issue. No allegation has ever been made that someone specifically approved.

But if a particular policy results in actions being taken the derivatives of which are a significant flow of narcotics into this country, we obviously ought to be deeply concerned about that.

And whether it was the aberrations of a few or whether it was a systematic process of the many that came about as a consequence of clandestine operations that permitted easy access in and out of the country, egress and access, we obviously have to be concerned about the results of that, and I am concerned about it.

And if it has facilitated the flow of drugs into the streets of the United States, into our communities, affected our kids and adults and others in this country with further addiction and other problems, it is clearly something to be deeply concerned about, whether it is an aberration, a derivative or a systemic process.

That is why this committee is so concerned about it and why we're pursuing it.

There's another reason we're deeply concerned. We went through a battle over certification for the Bahamas as to full cooperation in antidrug trafficking efforts. Other countries clearly make decisions and policies that affect us, and we make decisions that affect them.

It seems to me that if whole economies of other countries are based on narcotics trafficking, if newspapers are bought and sold or television stations, if political campaigns are contributed to through the proceeds of narcotics trafficking, and a narcotics cartel grows to have power which can affect the outcome of those elections, as well as decisions made by existing governments, we're in trouble, all of us.

And I think before these hearings are over we're going to see a pattern which is going to be very, very disturbing about the degree to which policies and government decisions and international affairs have in fact come to be controlled by those who are in the narcotics traffic, about the degree to which there is a subinstitutional network which is destroying the fabric of institutions which we overtly embrace, and finally the degree to which a narcodollar, a narcodollar, is beginning to become an important player in the lives of too many institutions which are supposed to be immune to it.

I hope that that will ultimately be the benefits of these hearings, that it will help us and guide us in our policy decisions regarding these matters.

Now, coming back, Mr. Morales, before we go into executive session I'd like to ask you some broader questions, if I can, about that.

You have said to us that you knew of other narcotics dealers who were also assisting the Contras. Were they assisting them by supplying weapons or cash?

Mr. MORALES. Weapons and cash.

Senator KERRY. And cash, both?

Mr. MORALES. Both.

Senator KERRY. Over what period of time did this take place?

Mr. MORALES. 1984, that I'm aware of.

Senator KERRY. And is that because that was the time when they were under the most pressure to survive?

Mr. MORALES. I really cannot tell about that.

Senator KERRY. You don't know that. But that's when you became most aware of it?

Mr. MORALES. Yes.

Senator KERRY. Regarding political contributions, do you ever make contributions to political campaigns?

Mr. MORALES. Yes, I did.

Senator KERRY. Did you make contributions with narcotics dollars, with the profits from your——

Mr. MORALES. Yes, I did.

Senator KERRY. Did you make those through other people?

Mr. MORALES. Through other people and directly.

Senator KERRY. Were they in this country and elsewhere?

Mr. MORALES. They were in different countries than this.

Senator KERRY. And this country?

Mr. MORALES. No, not this one.

Senator KERRY. Did you contribute to any of the local campaigns in Miami?

Mr. MORALES. No.

Senator KERRY. Did you involve yourself in the presidential elections of any countries?

Mr. MORALES. Yes, I did.

Senator KERRY. In which countries? [Pause.]

Mr. YAVITZ. We would prefer to discuss that matter in a closed session. Even the mention—I think he is rather worried as to the mention of the country.

Mr. MORALES. Rather than the people.

Senator KERRY. Well, I think that it seems to me that the mention of the name of the country does not articulate which party or

which side or which candidate you may have participated with. But I think it's fair for us to have an indication of which presidential race and which country.

Mr. MORALES. I did participate in Haiti, the Bahamas, in Costa Rica.

Senator KERRY. All right, three countries.

Mr. MORALES. Yes.

Senator KERRY. All right. We will pursue in executive session the timeframes of that and which individuals and decide later whether or not we will release that.

Can you tell us the sum of money, however, that you made available in each of those countries?

Mr. MORALES. How much money it was?

Senator KERRY. How much money was involved in your participation in Haiti? How much money was involved?

Mr. MORALES. I do not know how much in Haiti. I do not recall. I can tell roughly in the Bahamas and Costa Rica.

Senator KERRY. All right. In the Bahamas, approximately how much money was involved?

Mr. MORALES. It was quite a few, because I've been following these gentlemen for many years and contributed to them a lot of money.

Senator KERRY. Approximately? In the thousands, hundred thousands?

Mr. MORALES. Hundred thousand, yes, a lot more than that.

Senator KERRY. $100,000, $200,000?

Mr. MORALES. No, more than that.

Senator KERRY. A million?

Mr. MORALES. No, I would say probably around a figure, probably $600,000 maybe.

Senator KERRY. How much?

Mr. MORALES. $600,000, maybe more.

Senator KERRY. $600,000, somewhere in that vicinity.

And was this money contributed specifically for election purposes, or was it contributed as part of your process of doing business there?

Mr. MORALES. Both.

Senator KERRY. Both.

Mr. MORALES. To buy the protective situation in that country for the narcotics, the narcotics business.

Senator KERRY. And how much money in Costa Rica?

Mr. MORALES. $200,000.

Senator KERRY. We will go into greater depth with that afterward.

With respect to the effort with the Contras, there came a time when you realized your case wasn't going to be affected; is that correct?

Mr. MORALES. Yes, it was.

Senator KERRY. When was that?

Mr. MORALES. Late 1986—I'm sorry. Yes, 1986.

Senator KERRY. Had you already stopped doing the trafficking at that time between the Contra leaders and yourself?

Mr. MORALES. Senator, let me specify that it was two times. It was late 1985 and also there was another process in 1986 as well.

Senator KERRY. And is that when you decided to stop participating in that?

Mr. MORALES. I decided to stop participating in that Contra effort in 1985, in the end. And I didn't do any more business with them in 1986, but I felt that I should draw back from that effort because it was not going to go nowhere, especially in 1986, when I was arrested and indicted again. I knew the whole thing was gone.

Senator KERRY. OK. If you could speak slowly and clearly there, so we could follow each word, that would be helpful.

Mr. MORALES. Especially in 1986, when I was arrested again, so I feel that the whole situation was, sort of speaking, gone for me to try to help the Contras.

Senator KERRY. Did you personally support the Contras?

Mr. MORALES. Yes, I did.

Senator KERRY. You still do?

Mr. MORALES. No, not any more.

Senator KERRY. Is there a reason for that?

Mr. MORALES. Well, I'm incarcerated. I don't have any more money.

Senator KERRY. No, but I mean, but if you had money you would still be willing to help?

Mr. MORALES. The truth, yes.

Senator KERRY. What happens? What do you say to——

Mr. MORALES. Let me clarify that point, Senator. Not the same Contra leaders, which some of them are just trying to look for power and trying to fight in between them, who's the one that's going to get the signature on the check.

I would probably help the Contra effort, the war against communism, as well as anybody else living in a democracy in the same way that we live, not directed to the same Contra leaders or to someone which I don't believe what they do.

Senator KERRY. Now, somebody's going to come in here some time, privately or otherwise, maybe publicly, and say Jorge Morales is lying.

Mr. MORALES. Senator, I suppose they are going to, but I have to remind you that I am testifying under oath, and I'm telling you the truth. And I'm willing to go through any polygraph test whatsoever to prove that what I am saying is the truth.

Besides that, I have several other people, other persons through which I engaged this effort to support the Contras. Some of them belong to the Contras. They are willing also to tell you the way it was.

Senator KERRY. And you're going to share with us their names in closed session?

Mr. MORALES. Yes, sir.

Senator KERRY. And you're willing to make available to us the documents that helped to support these statements that you've made?

Mr. MORALES. Definitely, sir.

Senator KERRY. Well, Mr. Morales, I want to thank you for the public portion of your testimony, and we are going to now go into closed executive session in order to discuss some of these matters further.

So, we will recess for about 5 minutes while we clear the room of the television and audio equipment in order to be able to do that. In fact, we are going to go into the back room here, so if we could move you into the back room we will do that.

We stand recessed until we reconvene in executive session.

[Whereupon, at 3:07 p.m., the subcommittee proceeded in executive session.]

OVERSEAS PRIVATE INVESTMENT CORPORATION'S LENDING PRACTICES AND MIDEAST PIPELINE PROPOSAL

FRIDAY, OCTOBER 30, 1987

U.S. SENATE, SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY, TRADE, OCEANS AND ENVIRONMENT AND SUBCOMMITTEE ON TERRORISM, NARCOTICS AND INTERNATIONAL OPERATIONS OF THE COMMITTEE ON FOREIGN RELATIONS,

Washington, DC.

The committee met at 10:08 a.m. in room SD-419, Dirksen Senate Office Building, Hon. Terry Sanford presiding.

Present: Senator Sanford, Kerry, Helms, and McConnell.

Also present: Jack A. Blum, special counsel.

Senator SANFORD. The meeting will please come to order. This is a joint meeting of the Subcommittee on International Economic Policy and the Subcommittee on Terrorism, Narcotics and International Operations.

I thank the witnesses for being here. I would like in a moment for you to identify yourselves and then I would like to administer the oath in advance of your testimony.

This meeting is to obtain facts concerning a loan made by OPIC to John Hull, a Costa Rican rancher who was involved in the so-called Contra private aid network, and on a proposal made by a Swiss businessman that OPIC insure an Iraqi oil pipeline project strongly supported by the National Security Counsel against a hostile Israeli action.

Now, I understand that the president of OPIC is not here. He is tied up, but we do have several others. And I will ask you just for the record if you will identify yourselves from left to right giving us your titles. And I ask you please to talk into the microphone.

Mr. GARFINKEL. Mr. Chairman, my name is Eric Garfinkel, and I will be delivering our testimony. I'm OPIC's vice president and general counsel.

Ms. OSOWSKI. My name is Mildred Osowski. I'm a senior counsel at OPIC.

Ms. CHALMERS. I'm Jane Chalmers. I'm the deputy general counsel.

Mr. DRAGGON. My name is Robert Draggon. I'm vice president of finance.

Mr. JOHNSTON. My name is Felton Johnston, and I'm the vice president for insurance of OPIC.

Senator SANFORD. Now, I would ask you if you would take the oath as witnesses. If you would raise your right hand.

[Witnesses sworn.]

Senator SANFORD. Thank you.

Now, Senator Kerry, who is the chairman of the Subcommittee on Terrorism, Narcotics and International Operations, has an opening statement. Senator Kerry.

OPENING STATEMENT OF SENATOR KERRY

Senator KERRY. Thank you very much, Mr. Chairman. I appreciate that, and I appreciate your cochairing this hearing with me.

In the course of the Narcotics, Terrorism Subcommittee investigation into the impact of both the private aid network run by Oliver North, as well as the drug trafficking that has taken place, as we examine the impact on American foreign policy, a number of witnesses made allegations about the activities of an American rancher in Costa Rica by the name of John Hull. On the basis of those allegations, the Foreign Relations Committee unanimously voted to subpoena Mr. Hull to obtain financial and travel records which would make it possible to evaluate the things that had been said. Mr. Hull has chosen to remain in Costa Rica where a congressional subpoena cannot be served.

As the committee investigation of the allegations proceeded, the committee became aware that the Overseas Private Investment Corporation made a $375,000 loan to a Costa Rican corporation partly owned and apparently controlled by Mr. Hull, and that that loan was in default. It was at that time that we requested and received the complete file on the loan to that corporation known as Maderas Tropicales, S.A. The file raised serious questions about OPIC's lending practices, and we therefore invited OPIC's management here today to explain these practices as they applied to this loan.

The questions frankly are many. They are whether or not the loan was properly underwritten; whether the money was disbursed before OPIC itself had been assured that the conditions of the loan were met; whether the business that received the loan was properly monitored; and whether OPIC has made every effort to collect on the loan once it realized it was in default. Obviously, a central question—and it is not one we should duck—was whether the loan was made on its merits in furtherance of the development of Costa Rican economy or whether it was the behest of another agency or other individuals in furtherance of Mr. Hull's activities.

Underscoring the importance of this question was the recent disclosure that OPIC was asked by the NSC staff to become involved in insuring an oil pipeline from Iraq to the Jordanian port of Aqaba, and that OPIC, indeed, had attempted to be responsive to the NSC. We requested the entire pipeline file from OPIC. It has been delivered, and we asked OPIC to explain its involvement in the pipeline matter and how that involvement was, in fact, related to the general mission of OPIC.

Before this hearing begins, I would like to say for the record that the staff of OPIC has been extremely cooperative, forthcoming. There has been no effort to delay. They have promptly responded

to the committee's requests, and they have been frank and forthcoming in the meetings between staff. And we are very appreciative of that.

The committee will also hear testimony this morning from two individuals who have had personal dealings with Mr. Hull relating to investments in land in Costa Rica. Their experiences are pertinent to both the OPIC loan issue, as well as to questions about the nature of Mr. Hull's activities in Costa Rica.

As we begin this hearing, I want to make it clear also that the committee would like to hear Mr. Hull's story. We welcome Mr. Hull here to answer a number of questions pertaining to a number of different activities and the committee would at any time be willing to proceed to hear Mr. Hull.

If I could just ask, there are some important individuals with respect to this loan matter that aren't at this table. And I just want to understand. Is Mr. Tom Clegg here?

Mr. GARFINKEL. Yes, he is.

Senator KERRY. He is here, all right. And Margaret Walsh?

Mr. GARFINKEL. She is not here. She had a medical emergency this morning, and she is not here. But we do have Ms. Osowski who worked directly with Ms. Walsh on this project available this morning.

Senator KERRY. And are there others who worked on the project analysis who are here? Vanessa Burgess?

Mr. GARFINKEL. No. She is no longer with OPIC, Mr. Chairman, and we did not bring her with us. We have Robert O'Sullivan with us who worked on the Aqaba matter. He is also sitting behind me right now, and of course, Mr. Johnston who was working on the Aqaba matter as well.

Senator KERRY. Let me also say that we have one extra witness that we didn't anticipate having until last evening, and that is Mr. Crone who was a partner in the sawmill with Mr. Hull. And he will be a witness also this morning.

Well, needless to say, I think it is going to be difficult to get answers to certain questions without the presence of Mr. Walsh and, indeed, even Ms. Burgess. It was my understanding that they would be here. And I certainly think that at some point we want to talk to them. But we will proceed notwithstanding their absence.

It is my understanding you have an opening statement.

STATEMENT OF ERIC GARFINKEL, VICE PRESIDENT AND GENERAL COUNSEL, OVERSEAS PRIVATE INVESTMENT CORPORATION; ACCOMPANIED BY: MILDRED OSOWSKI, SENIOR COUNSEL, JANE CHALMERS, DEPUTY GENERAL COUNSEL, ROBERT DRAGGON, VICE PRESIDENT OF FINANCE, FELTON JOHNSTON, VICE PRESIDENT OF INSURANCE, THOMAS CLEGG, DEPUTY TREASURER, AND ROBERT O'SULLIVAN, ASSISTANT GENERAL COUNSEL FOR CLAIMS

Mr. GARFINKEL. Yes, Mr. Chairman. And we would be pleased to have Ms. Walsh respond to any questions that you or the staff might have in the future.

Let me also add that Mr. Nalen regrets that he can't be here this morning, and he too would be pleased to provide whatever re-

sponses you might need in regard to specific questions. And he would also be prepared to provide the committee with an affidavit with regard to his own actions in connection with the Maderas and Aqaba matters.

We, Mr. Chairman, welcome the opportunity to appear before you this morning because we too would like to put behind us these two projects and in particular the allegations regarding OPIC's purported role in the Contra resupply effort, which I might add is simply false. We sought to cooperate fully with this committee. We have supplied you with our complete files and records. And we have sat down on more than one occasion with Mr. Blum to provide him with answers to the questions that are obviously before this committee. We want to do nothing but cooperate and get the full and complete story out because we feel we have nothing to hide.

Let me state at the outset that we internally conducted an investigation of both the Maderas and Aqaba projects to learn how the projects were handled, and our testimony today reflects what we have uncovered.

First, let me say that with regard to the Maderas project, management and staff of OPIC received absolutely no requests or pressure from any U.S. Government agencies, including the National Security Counsel. And our president, Mr. Nalen, as I indicated, is prepared to submit an affidavit indicating that he personally had no contact with NSC staff or any White House officials. OPIC's only contact with other agencies was in connection with routine consultations with the Departments of Commerce and State, as required for every OPIC project.

From our records that we supplied the committee, it is clear that OPIC management was simply unaware of any direct connection between John Hull or his representative, Robert Owen, and the Contra resupply effort until pressure reports on this issue emerged in December 1986. I can also report that we have contacted all the former OPIC employees who worked on the project but are no longer with us, and that to a person they were not aware of any such connection.

The Maderas project was handled as any other OPIC finance project, and again was not influenced directly or indirectly by the sponsor's alleged connections with the Contras, the National Security Council, or the Central Intelligence Agency.

In Contrast, Mr. Chairman, OPIC did receive advice from the National Security Council regarding the importance of the Aqaba project from a national security perspective. However, as the files presented to this committee bear out, notwithstanding this quite unusual occurrence, OPIC's management was adamant in its adherence to its statutory mandates as well as prudent commercial underwriting standards. The record amply demonstrates that even with the expression of support from the NSC, OPIC steadfastly refused to consider any proposal which did not satisfy its congressional mandates or those commercial standards.

Mr. Chairman, our written statement that we submitted to the committee goes into great detail in the Maderas and Aqaba projects, and I will in the interest of time attempt to summarize

that statement. But I would ask that the full statement be submitted for the record with your approval.

Senator KERRY. So ordered.

Mr. GARFINKEL. As this committee knows, OPIC's mandate from the Congress is to assist the economic development of the world's less-developed countries by providing political risk insurance, loans and loans guarantees to American investors who are prepared to invest in projects in eligible developing countries. OPIC's statute requires it to operate on a self-sustaining basis, however, taking into account the economic and financial soundness of the projects it financed.

However, within that framework, OPIC's primary role is as a development agency, not as a bank. As a development agency, OPIC must accept some risk that commercial banks cannot accept, and its procedures cannot be identical to those of commercial banks.

Furthermore, because OPIC operates exclusively in developing countries, the legal systems and other types of infrastructure with which we must operate are often very different from what we find here in the United States. In many of the countries where OPIC operates, including Costa Rica, legal procedures are cumbersome, time consuming and ill-defined. Legal requirements that can be satisfied in a matter of hours in the United States can take weeks to satisfy in a developing country.

Moreover, there is a very limited field of local lawyers who are equipped to work in the English language. Lawyers familiar with domestic legal systems are often unfamiliar with international lending, and local accounting practices may be very different from the practices that are accepted in the United States.

Finally and importantly, OPIC's legislation requires a special emphasis on small business and often the projects that we support lack sophisticated legal and financial expertise. Nevertheless, because of its limited size and staff, we must rely on local lawyers and accountants to do most of the hands-on legal and accounting work required within the host country.

In this environment, OPIC's credit record is an excellent one. I am proud to say that our historical loan loss record of about 6 percent of our total credit portfolio compares favorably with the loss level common to domestic banks. OPIC's finance program is self-sustaining and its credit policies are clearly consistent with OPIC's congressional mandate to operate on a self-sustaining basis.

Now, every lender, Mr. Chairman, has some troubled loans. And I am going to stand here before you and tell you that the Maderas loan was one of those. However, the circumstances that combined here were ones that no lender could have foreseen or averted. This case involved not only borrowers who may have purposely defrauded the U.S. Government, but also a dishonest accountant and a lawyer with whom OPIC had a long history of favorable dealings who apparently, quite independently, not only misled us by claiming falsely to have registered our mortgage, but absconded with the registration fees. If the mortgage had been fully perfected when the borrower's fraud was discovered, OPIC could have proceeded against the collateral. By the same token, if the project had been established as represented by the sponsors, the problem with the collateral itself would have been insignificant.

In addition, we can now see with the benefit of hindsight that additional steps might have been taken in the Maderas case by OPIC staff particularly in connection with the credit decision and the predisbursement procedures.

As part of ongoing efforts to improve our policies and procedures and to learn from our experiences, both good and bad, our procedures continue to be refined to strengthen our credit, disbursement and workout operations. While no lending institution can claim to protect itself fully against bad loans or collection problems, we believe that OPIC's current procedures significantly reduce the risks in both areas.

Let me now turn to how OPIC became aware of the Maderas project. Because we have no overseas office, OPIC routinely relies upon the economic and commercial sections of our Embassies abroad for information regarding potential projects that might benefit from OPIC support. In September 1982 the economic section of the United States Embassy in Costa Rica gave an OPIC officer, who had previously been in Costa Rica, such information regarding the Maderas project. This information was further developed, and OPIC proceeded to process the loan application.

The project was to be a consolidation of three existing operations: a timber operation owned by Mr. Hull; a sawmill owned by Mr. Crone; and a wood products manufacturing facility owned by Mr. Arroyo. Each of the project sponsors would own one-third of the consolidated company. Maderas' request for the loan from OPIC was to provide for additional building, purchase equipment, and for working capital.

The initial contacts in 1982 were followed by a loan processing period of more than a year during which OPIC requested, received, and analyzed detailed information from the borrower and other commercial sources regarding the existing facilities, the proposed project, the sponsors and the projected developmental and U.S. economic effects of the proposal.

In addition to the initial contact with the U.S. Embassy alerting OPIC to the project, OPIC had routine consultations with the Embassy which indicated that it was supportive of the proposed project, and that it had no adverse information about Mr. Hull or the other sponsors. The only other consultations with U.S. Government officials prior to disbursement of the loan were with industry experts at the Commerce Department in connection with a sectoral analysis of the project to assure that there would be no adverse impact on the U.S. economy.

From 1982 through May 1983, OPIC's finance department reviewed the information about the three companies' historical operations. General background information and financial statements for 2 prior years were provided for each company. Backgrounds of each of the sponsors and their track records were presented in resumes and personal finance statements. The sponsors provided projections of the project cost, its financial plan, including the use of the loan proceeds, its capital structure and its current status. The sponsors visited our offices in July 1983 and a site visit was made by an OPIC officer in August 1983. Following that site visit, the finance department agreed to proceed with the loan.

OPIC then went about verifying the information provided by the sponsors. We sat down with the prospective customers and the company's U.S. distributor. We talked with Paswok, a Seattle-based manufacturer of wheelbarrows, which committed to buy handles from the company to displace those supplied from Korea. We also spoke to the representative from Kelly Co., a wheelbarrow manufacturer in Mississippi, and he indicated an interest in Mr. Hull's products. We also contacted Ames Co. in West Virginia, the largest shovel manufacturer in the world, and their representatives stated that they were impressed with the quality of the company's products and indicated that if the company chose to switch suppliers, they would have no difficulty purchasing from Mr. Hull.

Also in October 1983, OPIC received positive references from the company's U.S. sales distributor and two personal references from the project sponsor and his representative. OPIC also contacted the First National Bank in Evansville, IN and Crone Lumber, one of the sponsor's companies, and received satisfactory credit reports. In addition, OPIC received letters in support of the U.S. sponsors from their long-time associates, and a Dun & Bradstreet report was also obtained on the U.S. sponsors and related companies.

In December 1983, the company's loan was approved by OPIC's investment committee, a body composed of all of OPIC's departmental vice presidents. Throughout the first quarter of 1984, OPIC worked with the sponsors to finalize the loan documentation. As collateral, OPIC accepted land, including timber and improvements, and equipment. Also, OPIC required keyman life insurance on Mr. Hull's life.

At the time the loan was closed, the company did not own any land. Instead, Mr. Hull provided evidence that he had been given full power of attorney by the owners of the land to utilize it for the project and to use it as collateral for the loan. This authority was confirmed by the mortgage document and opinions of our Costa Rican counsel. Several weeks prior to disbursement, the borrowers signed all of the required collateral security documents and left them with OPIC's Costa Rican lawyer for registration. Because OPIC's lawyer represented the documents at the registry merely awaiting final stamping, which was purely ministerial, OPIC decided not to hold up disbursement of the loan while waiting for registration to be complete.

The project appeared to be proceeding as planned after disbursement. An OPIC officer visited the project in 1984 and observed it in operation. All the payments due under the loan agreement were kept current until the end of 1985. At that time, however, it became apparent that not only was the project experiencing serious problems, but also our collateral, which we had been told by our lawyers had been properly registered, was not, in fact, in the registry. At that point, we undertook to salvage the project by seeking new equity investors while at the same time taking all possible steps to register the mortgage.

Once the mortgage was in place, we commenced foreclosure proceedings in Costa Rica. We also referred the matter to the Justice Department in April 1987. Both the foreclosure proceeding and the Justice Department investigation are underway and are directed toward recovering our $375,000 loan.

I know you are interested in Rob Owen's role. So, let me address that briefly. He was introduced to OPIC by Mr. Hull as a friend whom Mr. Hull had asked to speak on his behalf to OPIC. Mr. Owen's connection—later connection I should add—with the NSC or any of its employees was unknown to OPIC until the press reports less than a year ago. He met with OPIC staffers on several occasions in 1985, and discussed Mr. Hull's request for a new loan which OPIC denied and the substitution of different collateral for the original property covered by the mortgage.

Any connection Mr. Owen may have had with other agencies of the Government was, I repeat, unknown to OPIC and had no possible effect, Mr. Chairman, on OPIC's handling of this loan.

Now, let me turn, if I could, to our current credit management practices. As part of our ongoing efforts to improve our policies, we have not only refined our credit policies, but we have begun a thorough review of the adequacy of our security throughout our loan portfolio. As a result, our current credit policies both prior to and post disbursement are considerably tighter than those in existence when the Maderas loan was made.

Specifically our finance department now requires audited financial statements on the sponsors going back at least 3 years; more stringent credit and reference checks, including TRW checks of all project sponsors, bank references from all banks with which the sponsors do business, and independent verification of the material assets; in-depth marketing studies, plus evidence of actual purchase commitments, are requested to support the marketing projections. Disbursements are made in tranches as the project passes agreed milestones rather than a single, lump-sum disbursement as was the case in the Maderas project. We also now seek independent certification of the sponsors' equity contributions prior to disbursement. We make additional site visits to confirm valuation of the property offered as primary collateral and, as appropriate, make independent appraisals of secondary collateral. Finally, we insure that mortgages are registered prior to disbursement.

Mr. Chairman, application of these policies to current finance applications at project has, we are confident, reduced our credit risks significantly. As I mentioned, we felt at the time we went through the Maderas project application that we had been very careful. This process has evolved. We have made some changes and we think we are even better prepared, obviously, than we were then to handle these projects.

Let me now turn, if I could, to the Aqaba pipeline project. It is not unusual for OPIC to work closely with investors to help fashion insurance coverage that will help solve specific political risk problems that they face. And that is what we did in the case of Aqaba.

Because of the unusual aspects of the project and its magnitude, as well as the sensitive foreign policy aspects of the project, before we went forward in considering this project, we wanted to satisfy ourselves that this project was consistent with U.S. national security interest. And we obtained such assurances from the National Security Council in contact with the Assistant to the President for National Security Affairs Robert McFarlane and other NSC staffers. However, even with the indications of support from the NSC, the record very clearly shows, Mr. Chairman, that we were not pre-

pared to go forward except on the soundest of underwriting bases, that is with a secure salvage package that would pay back OPIC in the event of a claim.

One proposal for fulfilling this requirement, which was not our idea I should add, but was proposed by the investors, would have involved assignment of United States foreign aid to Israel as such a salvage fund.

In our request to the Justice Department for advice on the legality of such arrangement, we were careful to point out its flaws. We received no response from Justice, and ultimately due to the lack of interest in the project, the project died on its own.

In conclusion, Mr. Chairman, it should be apparent from the Maderas and Aqaba projects that, far from a common pattern, these projects could hardly be more different. In the Aqaba project OPIC obtained clear indications of NSC support for a project that promised very substantial benefits to the U.S. participants and to the developing countries involved. OPIC, nevertheless, insisted on adhering to its statutory mandate to offer insurance only on a sound underwriting basis. And it is evident, as I mentioned earlier, that even though at times OPIC's insistence on a sound salvage package threatened to unravel the project, OPIC would not have offered insurance except on such a sound commercial basis.

On the other hand, in the Maderas case there was no indication of any interest from the National Security Council or any other Government agency. OPIC's management and staff were simply unaware of the alleged connections between one of the project's sponsors and any agency of the U.S. Government. And the project was processed without any outside influence.

The Maderas project is significant, however, insofar as it illustrates the problems facing any developmental agency such as OPIC in lending to the developing world. As a development agency, OPIC's primary goal is to see that it's projects successfully surmount these and other difficulties. Thus, in its initial response to a project showing signs of trouble, our instinct is not to foreclose on the project, but to seek to save the project by bringing in new investors and new management or by restructuring the project to take into account unforeseen conditions. We, after all, are in these projects to help bring them off where the commercial marketplace would not be able to do so on its own. So, we work with the local investors, and in the small business area particularly, to try and restructure these projects and keep them afloat.

Now, OPIC also, as I mentioned, seeks to improve the ways in which it satisfies its congressional mandates to provide this development assistance while operating on a self-sustaining basis. Thus, we have continued to try and improve our credit procedures. And as I mentioned, we believe that our new procedures in these areas have significantly improved the security of our portfolio.

Finally, with regard to OPIC's relationship with other Government agencies, let me point out that our board or directors includes representatives of six other agencies, and that our top officials all serve at the request of the President. Thus, from time to time we can only expect to be subject to requests from other parts of the executive branch, as we were in the Aqaba case. And I should add that we also receive expressions of interest on a routine basis from

Members of Congress in particular projects. But we don't view that as inappropriate. We feel that the contacts that we receive both from sources within the administration, as well as those from the Congress, enable us to learn about projects that may be suitable and developmental.

The important question, Mr. Chairman, is not whether such requests or expressions of interest are made either by the administration or by the Congress, but how these expressions of interest are handled by OPIC and, most importantly, whether OPIC's management or staff deviates from existing policies and statutory requirements and prudent underwriting principles.

Clearly the Aqaba project and the prudence with which we handled it demonstrates that even in the face of clear indications of support from the National Security Council, we continued to operate as Congress intended in that we refused to go forward unless our statutory mandates were satisfied. I am pleased to say that we can find no fault with the way OPIC handled the Aqaba project, and am confident that we will continue to adhere to our mandates should similar circumstances arise in the future.

Thank you.

[The prepared statement of the Overseas Private Investment Corporation may be found in the appendix.]

Senator SANFORD. Senator Kerry, do you want to pursue a line of questions now? Or I will leave that to you.

Senator KERRY. Do you want to start off?

Senator SANFORD. No, I'd rather defer to you.

Senator KERRY. Thank you very much, Mr. Chairman. I have a number of questions, and we'll just begin with this first round, if I can.

I listened with interest to your opening, Mr. Garfinkel, and I guess if I had to summarize it, I'd say that you said there were legal difficulties in Costa Rica, a different legal system which created some problems, but that essentially—I want you to tell me if I am characterizing correctly. Essentially I think you said the credit policy clearly kept with the self-sustaining policy, procedures, goals of OPIC, and that while the loan went bad, you're essentially telling us that no procedures were, in effect, out of order or nothing was done that was wrong. Am I hearing you correctly?

Mr. GARFINKEL. Well, I'm not going to tell you that what was done in that case was perfect. I think we have made some significant improvements.

Senator KERRY. I'm not asking about perfect. Wrong. Was anything done that was wrong? Was there bad procedure?

Mr. GARFINKEL. No. I think we followed our internal procedures. I think there were some unforeseen developments that in retrospect could have been avoided had our procedures been more extensive at that time.

Senator KERRY. Well, let's begin from there then as a starting point. Now, when John Hull applied for the loan, he provided you with personal histories, financial statements for each of the partners in the business, as well as financial statements for the business listing its assets. Is that accurate?

Mr. GARFINKEL. Correct.

Senator KERRY. And his original list of assets and liabilities, for example, listed him as a 60-percent owner of Floyd Investments of Patoka, IN. Correct?

Mr. GARFINKEL. That's correct.

Senator KERRY. It listed him as having other assets including producing oil wells in Indiana, totaling $3.35 million. Is that correct?

Mr. GARFINKEL. That's correct.

Senator KERRY. Now, prior to making the loan, did OPIC run any form of credit check to determine whether the assets listed by John Hull existed?

Mr. GARFINKEL. I would like our finance vice president to speak directly to this.

Mr. DRAGGON. Yes. I was not involved in the loan personally, but I have reviewed the file. And no checks were made prior to disbursement.

Senator KERRY. In what form were they made? Can you show me in the documentation?

Mr. DRAGGON. They were not made, sir. I said they were not made.

Senator KERRY. They were not made.

Mr. DRAGGON. That's correct.

Now, let me point out that form of lending that we engage in, generically called project finance, where we are looking primarily to the cashflow of the project itself for repayment, therefore, the focus was on the project in Costa Rica, not on the secondary collateral.

I want to point out, however, that our today's procedures in place would require us to look at the valuation of the assets behind the guarantees before disbursement.

Senator KERRY. Well, now you are going to tell me that on a startup business, which this was—correct?

Mr. DRAGGON. That's correct.

Senator KERRY. There was no record history of this business, no profit-loss statements. Correct?

Mr. DRAGGON. It was a consolidation of three businesses in Costa Rica.

Senator KERRY. And the project was a new project, new concept. Correct?

Mr. DRAGGON. Yes.

Senator KERRY. A startup project. So, you had no financials which give you any indication as to—you know, record, so to speak, in this particular market. That's a fairly risky loan on its face; isn't it?

Mr. DRAGGON. Generally yes.

Senator KERRY. So, you are going to say that you just didn't look to see whether someone that you didn't know applying for a loan stating their liabilities and assets, whether they were real.

Mr. DRAGGON. I would say again that procedure we follow is to concentrate on putting together a solid project in the host country. We realize that in promoting small business investment in LDC's and enticing them into undertaking these projects that we often have to rely primarily on the assets and the cashflow of the project itself because they don't have the resources or they can't—they

don't have sufficient resources to do both their domestic operations and their host-country operations——

Senator KERRY. But at this point in time you didn't know whether there was any cashflow, and you didn't know anything about the assets. Correct?

Mr. DRAGGON. My review showed that there were projections. The projections were analyzed by the finance team.

Senator KERRY. Well, I think we can get into that later. Let me say that I have in front of me the first memorandum by Peg Walsh. And I do, indeed, wish she was here, and we would want to pursue things with her. But she says, "In my opinion the following information is needed before a decision can be made: One, general historic background on the Costa Rican firm; two, historic financials on Costa Rican firm—Tom Clegg thinks that they might not be readily available. Three, a more definite set of projections. The numbers only focus on sales. No mention is made of profit or anything else. And four, background on equity"—I can't even read the word there—"equity investors. Experience in the area, their associations with Costa Rica company, et cetera."

Now, is it your feeling that those were adequately provided for at some later date?

Mr. DRAGGON. Senator, I was not involved in the project. I reviewed it. I can say that they generally followed the procedures in place. With the benefit of hindsight, there were of course some improvements that could have been made in the investigative process at that time.

My concern as the vice president of finance today is to make sure those procedures have been strengthened, and I feel that they have been.

Senator KERRY. Well, I appreciate that, and I think everybody here does. But I still think that this loan raises very serious questions about the process and about——

Mr. DRAGGON. Let me add one other thing. I think generally our approach to supporting projects supported by U.S. small businesses is to get in with the sponsor and help them put the project together. We recognize that many of these sponsors are unsophisticated. They don't keep good records or records as complete as we would like to see. But generally, our approach is to be helpful and take a positive approach to putting the project together.

Senator KERRY. Let me just—you know, we are not talking about Third World country developers here. We are talking about American investors. Correct?

Mr. DRAGGON. That's correct, sir.

Senator KERRY. So, it is not as though these folks don't speak English or aren't—I mean, this is an American businessman with an Indiana bank, with other American businessmen, with American business financial resources.

Mr. DRAGGON. The investor is in a foreign country trying to put projects together and sometimes he does not have all the financial professional services needed to do that.

Senator KERRY. Well, let me just ask this. When did OPIC run a check on Mr. Hull? You did run a check at some point. Correct?

Mr. DRAGGON. There were checks run. Again, I wasn't involved in the project, and I can't address that.

Senator KERRY. Well, let me help you out. In late 1986—this process began in 1982, first application. In late 1986 and early 1987, more than 1 year after John Hull stopped making interest payments, you made a check on John Hull. Does that ring a bell?

Ms. OSOWSKI. Yes, but the consolidated companies did provide all the financials before the loan was disbursed, and that was what was analyzed in making the project loan to three existing enterprises. And those financials and profit-and-loss statements and so on I think are all in the documents that——

Senator KERRY. We will go through those a little later. But what did OPIC find out when you then for the first time checked the assets that he laid out to you in 1982?

Ms. OSOWSKI. Well, I certainly can't say that our efforts are all-inclusive because we had to go on what information we had in terms of what likely counties his properties may have been located in. But what we did learn at that point was that the majority of Mr. Hull's holdings appeared to be in the names of family members rather than himself.

Senator KERRY. So, you learned that in fact—well, further than that. Was there any property under the name of Floyd Investments?

Ms. OSOWSKI. I don't recall that, but I'm not certain that all those names were checked. I would have to go back and look at—I mean, I think you have the documents there of the checks that——

Senator KERRY. Well, who has reviewed those documents in preparation for this hearing? Anybody? I mean, I can answer the question. The answer is "No." There was no Floyd Investments that you found. No Floyd Investments.

What about producing oil wells in Indiana? Were there any producing oil wells?

Ms. OSOWSKI. I know those documents are also in the record.

Senator KERRY. Can anybody answer that? Were there any producing oil wells?

Ms. CHALMERS. I believe the documents show that we weren't able to find any producing oil wells that were registered——

Senator KERRY. Can you speak up into the microphone? Thank you.

Ms. CHALMERS. I believe the records show that we were not able to find evidence of producing oil wells in his name.

Senator KERRY. So, in effect, a man, who came to you asking for a loan in 1982 who stated as his assets producing oil wells and Floyd properties, didn't hold those properties. Is that correct?

Ms. CHALMERS. That's the conclusion we're reaching; yes.

Senator KERRY. Is that fraud as you understand it under the law?

Ms. CHALMERS. That is one of the reasons we have referred this matter to the Justice Department.

Senator KERRY. When did you first refer it to the Justice Department?

Ms. CHALMERS. In April 1987.

Senator KERRY. Now, do you want to——

Ms. CHALMERS. I would point out that the preliminary checks that we did in 1986 are by no means all-inclusive, and we have no reason at this point to know whether or not Justice has done fur-

ther investigations. And I think, as you may be aware, things such as oil records are done on a county-by-county basis. You know, every State has things recorded differently. I think a more in-detail check would need to be made before we could conclude that, in fact, there are no assets in his name or the companies' names.

Senator KERRY. Now, you now require audited financial statements. Is that correct?

Mr. GARFINKEL. Yes, we do.

Senator KERRY. As a matter of policy?

Mr. GARFINKEL. That's correct, sir.

Senator KERRY. When did you implement that policy?

Mr. GARFINKEL. Go ahead, Bob.

Mr. DRAGGON. Yes. First of all, historically we have always asked for audited financial statements, and for the most part we receive them for a large percentage of our loans. However, we have found that in working with small businesses, that oftentimes they do not have audited statements, one, because of the expense of preparing these and, two, that often their domestic banks do not require them.

Now, the purpose in asking for audited statements is simply to qualify the sponsor and his track record. Faced with unaudited statements, we also require credit, reference checks, domestic site visits as well as visiting the project site itself and other information to verify and qualify the sponsor.

Now, despite this and in a continued effort to strengthen our procedures in July 1987, I implemented a policy requiring financial statements, audited financial statements, for all projects regardless of size. Exceptions must be submitted to me for approval.

Senator KERRY. The proposal and recommendation for approval by the OPIC, by your approval committee—I'm referring to document 36 in the book, page 5 thereof, which is reproduced here. Stated as the basis for the recommendation: "Although the unsophisticated financial records of the company and the sponsor's sole proprietorships have made OPIC's standard credit analysis more difficult, a site visit by OPIC as well as in-depth marketing and individual sponsor checks support the commercial strength of this project."

Now, can you tell me who made that site visit that justified approval?

Mr. DRAGGON. It's my understanding that the investment officer on the case at the time was Vanessa Burgess who made that visit.

Senator KERRY. And you are telling me that prior to the recommendation time—prior to the recommendation time—she made a site visit there?

Mr. DRAGGON. That's correct.

Senator KERRY. And what about the individual sponsor checks? I mean, you've just said you didn't check into the individual sponsors at all.

Mr. DRAGGON. As I recall from my review, there were references provided by associates and businesses connected with the project. There were credit checks.

Senator KERRY. Well, the record that I've looked through—and I've seen every document that you've supplied us with—shows that the fullest extent of any check was a cursory phone call. We have

contacted every single one of the people that you talked to that supposedly were checked. And the full extent of a check amounted to a telephone call with the comment from them, "Oh, yeah, if they can provide cheaper goods, sure, we may buy them."

Now, can you point to any proper, normal procedural credit check as credit checks are known with a credit report? I don't see any credit reports in here.

Mr. DRAGGON. I believe there is a Dun & Bradstreet report.

Senator KERRY. Can you show that to me in the records that you provided us?

Ms. OSOWSKI. There were also checks made with the bank. That may also have been done by telephone, but with the First National Bank of Evansville—that check was also made, and the three companies that were potential customers or a current distributor. There were personal references and then D&B's were checked on a couple of companies. And I think we can probably locate those for you.

Senator KERRY. What was the date of Ms. Burgess' trip?

Ms. OSOWSKI. Let's see. I have a record here that she made that in August 1983. So, that was prior to the loan committee meeting and prior to committing.

Senator KERRY. And did she report on the result of that trip?

Ms. OSOWSKI. I don't think that the file reflects——

Senator KERRY. Because we don't have a file report on that.

Ms. OSOWSKI. I don't think that there is a written document. I think what normally occurs is that the results of those trips get incorporated into the loan paper that is prepared for the committee. But basically all the information she gathered on how the project was going to be put together and structured would have been incorporated in the loan paper which you do have a copy of.

Senator KERRY. Can you refer——

Ms. OSOWSKI. The investment committee papers——

Senator KERRY. Oh, the investment committee papers themselves.

Ms. OSOWSKI [continuing]. I think it is formally called.

Senator KERRY. OK.

Now, I have looked through the documents submitted by the company that you titled as being unsophisticated financial records. I have to tell you that I think unsophisticated is being charitable. There are cross outs. There are mistakes. The assets are sort of casually listed without any checking into them, et cetera.

Would you say that you were satisfied that those, as they are represented to us, are the full extent of the financial records of this company?

Mr. DRAGGON. I would say from my review there was certainly room for improvement. And our standards are much higher today.

Senator KERRY. Now, can you give me any other—what else was part of this so-called in-depth individual sponsor check?

Mr. DRAGGON. Senator, again——

Senator KERRY. First of all, could you tell me whose characterization is that? Who wrote this report?

Mr. DRAGGON. It's a collective effort of this group here.

Ms. CHALMERS. Which report are you referring to, Senator?

Senator KERRY. I am referring to the direct——

Ms. CHALMERS. The investment committee paper?

Senator KERRY. Yes, to the December 1983 direct investment—approval investment committee report.

Mr. DRAGGON. That would be the investment officer and other support staff.

Senator KERRY. And that is who?

Mr. DRAGGON. In this case, Vanessa Burgess.

Senator KERRY. Vanessa Burgess would have written that.

Mr. DRAGGON. That's correct.

Senator KERRY. Now, isn't it a practice in those meetings—generally most people aren't too familiar with the case. Correct? You sit around. There is somebody specifically who is responsible for it, and they report to the committee. And they say, "Well, on this particular loan there are some financial problems here and there." But you essentially take the word of the investment officer, don't you?

Mr. GARFINKEL. Except the steps that that person went through in compiling the paper would be made known to all the folks sitting around the table, and as I mentioned in this particular case we contacted three of the customers that indicated an interest in buying the product, talked to a distributor. We talked to a number of personal references, talked to the bank, and we got D&B's on five individuals associated with the project.

Senator KERRY. But that was all Vanessa Burgess. Correct?

Ms. OSOWSKI. I'm sure she had other staffers working with her.

Senator KERRY. And she would have reported that information to you. Is that correct?

Mr. GARFINKEL. That's right.

Senator KERRY. So, it would have been her judgment that essentially all signals are go, green light on this.

Mr. DRAGGON. And reviewed with her supervisors as well.

Senator KERRY. And who was her direct supervisor on this case?

Mr. DRAGGON. I believe at the time it was a gentleman by the name of Mr. Brown.

Senator KERRY. And is he still with OPIC?

Mr. DRAGGON. No, he's not.

Senator KERRY. Do you know where he can be located now?

Mr. DRAGGON. I believe he resides in Washington.

Senator KERRY. Now, so we have already established that no in-depth check of John Hull was made here. Isn't that correct?

Ms. OSOWSKI. Of his personal assets. But in terms of the individual companies that were going to be consolidated, that was definitely investigated. And those financials were obtained, and those are in the record. And in terms of—you know, we did have Hull's own statement of his assets.

Senator KERRY. Now, before OPIC would loan the money, you insisted on certain preconditions, including life insurance on John Hull as the keyman and a security agreement on the property being used in the project. Correct?

Ms. OSOWSKI. Correct.

Senator KERRY. Ultimately it turned out that his life insurance policy was never paid for. Correct?

Ms. OSOWSKI. That's not correct, sir.

Ms. CHALMERS. That just is not what the records demonstrate.

Senator KERRY. OK, tell me what they do demonstrate.

Ms. CHALMERS. They demonstrate that as of the closing date we had received a binder from the insurance company, the first company which issued a policy on Mr. Hull—that was Security Connecticut—which was to become effective upon payment of $2,000 which was, indeed, paid at the closing. A policy was issued on April 13, effective as of April 9. That was well within the terms on which we disbursed the loan where we required that the policy be in effect within 60 days of the closing.

Mr. Hull apparently changed companies in September 1984. There is a policy in the file. It is dated September 11——

Senator KERRY. Did he notify you when he changed?

Ms. CHALMERS. Well, we have a copy of the policy in our files. I'm not sure whether there was any telephone contact in that connection.

Senator KERRY. He paid $2,000 at the time of the closing. Correct?

Ms. CHALMERS. That's correct.

Senator KERRY. And there was one binder.

Ms. CHALMERS. That's correct.

Senator KERRY. He then changed companies.

Ms. CHALMERS. That's right.

Senator KERRY. Did you receive another binder?

Ms. CHALMERS. We received a copy of the policy that John Hancock had issued.

Senator KERRY. That was the first one.

Ms. CHALMERS. No, this was the second one. We had the first policy which was issued in April by Security Connecticut. We also have the second policy which was issued in September by John Hancock, and which was canceled in February 1985, the day after a policy had been issued by IDS Co.

Senator KERRY. Do you have any idea why it was canceled?

Ms. CHALMERS. Well, there's a letter in the file which I believe you have——

Senator KERRY. Yes.

Ms. CHALMERS [continuing]. Which indicates that Mr. Stiehler who was Mr. Hull's representative had indicated all sorts of dissatisfaction with it. I don't know the details of that or the underlying facts.

Senator KERRY. Wasn't it that he wasn't going to pay the premium?

Ms. CHALMERS. Well, there is some indication that there was an automatic premium payment arrangement in effect, and I frankly don't know what underlay the correspondence that we have about that. But it may have had something to do with the premium.

In any event, a new policy was issued in February 1985, and the files record the fact that at least as of January 1986, that policy was in effect and remains in effect so far as we know.

Senator KERRY. Have you checked it?

Ms. CHALMERS. No, sir, we haven't.

Senator KERRY. So, you don't know.

Ms. CHALMERS. The last indication in our files on that point is a record of a telephone conversation in which we were assured that that policy was in effect in 1986, and that if there were to be a can-

cellation that we would be notified of that fact, which we have not been.

Senator KERRY. Now, the security agreement was not registered in Costa Rica. Correct?

Ms. OSOWSKI. Are you speaking of the mortgage? Yes, that's right. It had not yet been registered at the time of the closing.

Senator KERRY. So, in effect, at the time you closed the loan, you had no security agreement.

Ms. OSOWSKI. No, that's incorrect. All the documents were signed. They were legally binding on the sponsors. They were merely not finally registered with the registry in Costa Rica.

Senator KERRY. How is it possible for you to accept other people's land as security on an agreement like this?

Ms. OSOWSKI. That would obviously be a matter of Costa Rican law with respect to whether or not Mr. Hull or his company had a sufficient power of attorney to grant that mortgage. We received opinions from both his lawyer—Mr. Hull's, the Maderas' lawyer—and our own that a sufficient power of attorney had been granted. And that is obviously a matter of Costa Rican law and something we had no reason to question.

Senator KERRY. Did you ever think of asking the people whose land was being put up for security whether or not they consented to that?

Ms. OSOWSKI. Again, that's obviously a matter of Costa Rican law and something that——

Senator KERRY. Well, no. Isn't it a matter of their choice?

Ms. OSOWSKI. Well, it's a matter of whether someone had a legal right to do it. We were informed by the lawyers that, in fact, that was the case.

Senator KERRY. You were informed specifically by the lawyer in Costa Rica.

Ms. OSOWSKI. In the mortgage document is a representation approved by Hull and reviewed and opined upon by both our lawyers that sufficient power of attorney did exist to grant the mortgage. We had no reason to question that.

Senator KERRY. So, that if in fact that wasn't true, you would assert that you are an innocent victim while Mr. Hull would have known what he was doing, and——

Ms. OSOWSKI. Absolutely.

Senator KERRY. Now, you would say then that you had received the documents that were the preconditions to your making this loan at that point in time. Is that accurate?

Mr. GARFINKEL. That's correct.

Senator KERRY. Were these documents certified true copies?

Ms. OSOWSKI. Yes. I think the record shows that.

Senator KERRY. Now, his original loan request was referred by the commercial attache of the Embassy in Costa Rica. Correct?

Mr. GARFINKEL. That's correct.

Senator KERRY. And a year later you asked the Embassy in Costa Rica to comment on the reputations. What did they say at that point in time—the Embassy?

Mr. GARFINKEL. They had no adverse information.

Senator KERRY. Weren't they, in fact, a little more positive than saying no adverse?

Ms. OSOWSKI. I'm sure the cable is in the file. I don't know if we have a readily available copy of that. Obviously our concern is whether or not anything adverse comes to light, and I know for a fact that it did not. Perhaps that document could be located.

Mr. GARFINKEL. The embassy said:

> John Hull is personally well known to several Embassy personnel, and the Embassy finds no particular political risk associated with the project's location. Costa Rican law does not prohibit United States citizens from owning timberland, while the new regulations on timber are designed to reduce the export of timber and logs and promote the export of semiprocessed, finished wood products such as those produced by Maderas Tropicales.

Senator KERRY. So, the Embassy in fact was very positive about this. They encouraged it. The Embassy was the first contact in this loan.

Ms. OSOWSKI. And that's the standard procedure, and if the Embassy were to come back with an extremely negative or even a slightly negative response, we would think very carefully before moving forward.

Mr. GARFINKEL. The Embassy's concern was the development aspects of this, and as the last line of the cable says, "If the project will strengthen Costa Rica's promotion of nontraditional exports, the Embassy approves of OPIC financing of the project." So, they were more concerned about the developmental benefits than about Mr. Hull.

Senator KERRY. This is October 1983. Correct?

Mr. GARFINKEL. That's correct.

Senator KERRY. And while you may not be aware of it, this is for the record at the same period of time as the ranch and the airstrip on the ranch were being used as a depot for supply and resupply of Contras who were flying in and out of the Hull ranch at the time. I'm just stating that for the record——

Mr. GARFINKEL. We were certainly unaware of that, sir.

Senator KERRY [continuing]. So that the time dates are in coordination here.

Now, how did OPIC—what was the relationship—strike that question.

What was the record of your involvement up until that point with any other businesses in Costa Rica?

Mr. GARFINKEL. Bob, did we have other projects that you're aware of?

Mr. DRAGGON. We have other projects in Costa Rica. I'd have to go back and check the record to determine what projects we were working with at that time.

Senator KERRY. Could you recall how many perhaps?

Mr. DRAGGON. I cannot; no.

Senator KERRY. In each of those projects, did you work through the Embassy?

Mr. DRAGGON. It would be normal procedure to check with the Embassy to check on project sponsors; yes.

Ms. OSOWSKI. And doing site visits. It is routine for the OPIC official to stop in at the Embassy, to inform the Embassy in advance before they come.

Senator KERRY. So, working in Costa Rica was not something that was new to OPIC.

Mr. DRAGGON. That's correct.

Senator KERRY. Did you have a lawyer in Costa Rica that you used on prior occasions?

Ms. OSOWSKI. Yes. Yes, we did.

Senator KERRY. Was that the same lawyer that you used on this occasion?

Ms. OSOWSKI. That's right. OPIC's dealings go back some 15 years I understand. We'd had very good experiences with this particular lawyer, as well as the other members of his firm.

Senator KERRY. Did you deal with other members of that firm or with that lawyer alone?

Ms. OSOWSKI. No. We did deal with the senior partner of the firm, Mr. Pacheco, who is now still OPIC's lawyer.

Senator KERRY. And at what point in time did you find out that the mortgage had not been filed, had not been recorded?

Ms. OSOWSKI. That's a somewhat difficult question because our lawyer was still maintaining that it had been filed for quite some time after Mr. Hull told us that in his opinion or his checking that it was not. And so, I would say it was some time around the second loan request. Jane, is that correct? Do you have the——

Ms. CHALMERS. Well, I think that we didn't confirm that absolutely until the visit to the project in August 1985.

Senator KERRY. Were you not suspicious when you knew that the recording had not taken place?

Ms. OSOWSKI. Oh, when we learned that the recording had not taken place, yes, we were suspicious. Our lawyer gave us a story that seemed somewhat plausible given our good relationship with him in the past, and that was that one of the employees had taken the fees and not recorded it. We later learned that that was probably not the case and that it was our lawyer himself who had committed this act and defrauded us.

Senator KERRY. What about the level of suspicion that arose when you found out that land wasn't owned by him?

Ms. OSOWSKI. It was not suspicious. We felt we had legal justification, legal support. There was no suspicion in terms of the land that was taken as part of the first mortgage.

Senator KERRY. And you didn't feel it was necessary to get the legal consent of the owners in order to feel that your security was properly covered.

Ms. OSOWSKI. We felt that we had to rely on our counsel and that that point had been covered.

Senator KERRY. Now, as little as 6 months after the first loan was issued, Mr. Hull wrote to you to ask for more money. Correct?

Ms. OSOWSKI. Yes.

Senator KERRY. In the meantime, his insurance policy I believe at that point had, in fact, been canceled. Am I incorrect?

Ms. CHALMERS. I don't believe that there was a lapse, or if there was, that there was any significant period of time.

Senator KERRY. Well, if you turn to document 52, this is the Stiehler letter. Because of all the items listed above—"I list below several items with which I am unhappy. One, an unsigned bank authorization was sent to my bank without permission and payments made. Two, it was my understanding the cost to me was" blank. "However, I find the annual premium is" blank. "John Hull

is listed as the owner where Maderas Tropicales should be the owner. I did not understand a fee of" whatever. "Not only do I not have a copy of the policy, after talking with several people, including Mr. James Watt, it is not the policy of Hancock to furnish policies upon request. Therefore, I am exercising my right of cancellation. I further request all premiums paid be returned to Maderas Tropicales."

So, effective that date there is no insurance policy to your knowledge.

Ms. CHALMERS. No, I'm sorry. That is incorrect. We have in our files—and we provided to the committee—a policy issued by IDS dated February 19, 1985, the day before the date of this letter.

Senator KERRY. And which number is that? Can you draw that to my attention?

Ms. CHALMERS. I don't know that it is in this book.

Senator KERRY. Well, those are the only documents we were provided with.

Ms. OSOWSKI. I don't think that's correct.

Senator KERRY. Do you have it? And what is the date on that document?

Ms. CHALMERS. February 19, 1985.

Senator KERRY. And that is from which company?

Ms. CHALMERS. That is from IDS.

Senator KERRY. OK. And that held until what date?

Ms. CHALMERS. That, as far as we know, is still in effect. It was certainly—we have confirmation in our file that it was in effect as of January 1986.

Senator KERRY. And after January? Was that the second or third just for my own clarification?

Ms. CHALMERS. That's the third policy.

Senator KERRY. That's the third policy, all right. And the third policy is the one that you believe is still in effect. Is that correct?

Ms. CHALMERS. That's correct. We have no indication that it is not in effect, and we have an indication that we would be so notified were it canceled.

Senator KERRY. OK. Now, through 1985, Hull continued to ask for more money. So, you had an ongoing relationship with him at that point. There was a site visit in 1985 at some point time?

Ms. OSOWSKI. I think you were talking about the second request for a loan, and my records show that that loan request was rejected in February. So, it was not throughout 1985 that a loan request was pending.

Senator KERRY. Well, there was a prior request that he wrote. The loan was issued on the—what? I guess you'd say November 30. Is that correct? What is your actual date? You had two dates: One on the date that the forms were signed, and another date when the OPIC agreement was entered into.

Ms. OSOWSKI. Are you talking about when the loan was disbursed? That was March 1984, March 30, 1984.

Ms. CHALMERS. That was the same date of the signature of the document.

Senator KERRY. Now, at that point in time he said that if he didn't get that money for the second loan, he would be unable to pay back the money from the first loan. Correct?

Ms. OSOWSKI. I don't have a recollection of that.

Mr. DRAGGON. I have no knowledge of that.

Ms. OSOWSKI. You may have found something in the documents. I don't recall that statement, but it may be there. I'm sure he made many claims about why he needed the money. My recollection was that there was certainly some discussion about needing additional equipment. A kiln I think was one thing that was mentioned.

Senator KERRY. Well, let me read you—this is from Tom Clegg. This is 1985. This is from Hull, and he says, summarizing it:

> After receiving a letter stating I would have to wait on a new loan, I wrote requesting a loan for a smaller amount for a dryer. The request was subsequently rejected.

He went on why he would need it.

> To compound problems, startup production of the wheelbarrow handles was much slower than expected while the price of wood, labor, social benefits, * * *

And he went on to describe serious problems.

> Maderas Tropicales now loses money for every pair of handles it exports to the States. On top of this Maderas Tropicales sent two container loads to a Korean company, and has yet to be paid. In short, Maderas Tropicales is in a hell of a mess.

This is from the guy who runs it.

Ms. OSOWSKI. Right. And that is what date?

Senator KERRY. This is July 31, 1985.

Ms. OSOWSKI. OK. So, that was after the second loan request had been denied.

Ms. CHALMERS. And if I could point out, we did make a site visit within a month of that date in order precisely to look into these questions.

Senator KERRY. In that same letter he says, "Rob Owen travels fairly frequently to Costa Rica, and as you know, is based in Washington. He is knowledgeable about the situation and has agreed to act as my representative in Washington."

Was that your first introduction to Rob Owen?

Ms. CHALMERS. No. I believe the records show that we had had some contact with him in March 1985 in connection with the substitution of collateral, and that he had visited with OPIC's staff in July 1985 and I think August also.

Senator KERRY. And do you happen to know how Rob Owen first was introduced to you? Was it through John Hull?

Ms. CHALMERS. Yes, it was.

Senator KERRY. You do know that.

Ms. CHALMERS. That's what I gather from the documents.

Mr. GARFINKEL. He was working with Gray and company at the time, and apparently came in as Hull's representative, which didn't strike us as odd in the least.

Senator KERRY. I'm just trying to establish the sequence here for the record purposes.

Ms. OSOWSKI. We've had no dealings with him other than in connection with this project. So, he would have had to come in as—you know, on John Hull's request or whatever.

Senator KERRY. Now, what was your reaction at this point when Tom Clegg received this information. What was the reaction of OPIC to this loan?

Mr. GARFINKEL. We knew the project was in trouble, and we decided to see if there was any way we could save it because that's our initial response to these kinds of situations. And so, we went about trying to contact other potential investors and set in place a new series of procedures which we wanted Hull to follow.

Ms. OSOWSKI. Two visits were made, August and September, following up on what was reported in that letter to see if we could get a better handle on it.

Senator KERRY. And this is 1985.

Ms. OSOWSKI. Right.

Senator KERRY. OK. Now, who made those visits?

Mr. GARFINKEL. Mr. Clegg.

Senator KERRY. What did Mr. Clegg find in the course of those visits?

Mr. GARFINKEL. Tom, would you like to come up here?

Senator KERRY. Mr. Clegg, if we could just swear you for the record also. State your name for the record.

Mr. CLEGG. Tom Clegg.

[Witness sworn.]

Senator KERRY. What did you find when you went down to Costa Rica and examined——

Mr. CLEGG. The project had not been—was not in operation. It had been originally——

Senator KERRY. Could you pull that close to you?

Mr. CLEGG. The project was not set up as it had been originally envisioned in the loan paper.

Senator KERRY. Would you not say it is fair to say it wasn't operational?

Mr. CLEGG. That's correct.

Senator KERRY. It wasn't operational. All right.

Let me come back here for a second. I'll come back to you.

Is there any reason why you didn't take action against the law firm in Costa Rica?

Ms. OSOWSKI. Actually, I can answer that. As I said before, first of all, the first step was to make sure that in fact it had not been recorded because our lawyer was still telling us conflicting things from what we were hearing from other sources. When that was determined——

Senator KERRY. When did you do that? When did you make certain of it?

Ms. OSOWSKI. Well, I don't know exactly the date? Do you have a date on that, Jane,for any——

Ms. CHALMERS. It was certainly either before or during Tom's visit in August.

Ms. OSOWSKI. Yes. Yes, so that's some time during that period.

And what we did—also what had happened at that time is that Mr. Carballo had split off from the firm that OPIC had had the dealings with over the years, and had begun his own practice. And so, what we immediately did was go back to the senior partner, Mr. Pacheco, with whom we had originally started our dealings with that firm, and asked him to check into it, to find out what he could, and to take corrective action. And he did that. He came to Washington, as I recall. We empowered him through a power of attorney that we went through all the legal steps consularizing with

the Embassy of Costa Rica, and authorized him to take whatever steps were necessary, including to denounce Mr. Carballo to the Supreme Court of Costa Rica if required to get corrective action taken. And if he refused to take corrective action, then to have the Supreme Court of Costa Rica as the, I guess, authorizing body for the lawyers down there to take whatever action they felt appropriate.

Senator KERRY. Does he have malpractice insurance or not?

Ms. OSOWSKI. I have no idea.

Senator KERRY. Would that not be one source of recovery for OPIC in this matter?

Ms. OSOWSKI. I doubt that that is a very practical alternative. First of all, I don't know whether he does or doesn't, don't know what the malpractice rules might be in Costa Rica. That was never suggested to us by Mr. Pacheco as a course of action. He suggested the denouncement to the Supreme Court.

Senator KERRY. Well, isn't he associated with him? Wasn't he?

Ms. OSOWSKI. Not at that point in time. They had split off.

Senator KERRY. Does it surprise you if they were a part a same firm that he didn't recommend going for a malpractice suit?

Ms. OSOWSKI. Pardon me?

Senator KERRY. Weren't they part of the same firm?

Ms. OSOWSKI. No, not at that point in time. As I said, Mr. Carballo had split off his practice from Mr. Pacheco after the loan was disbursed. I'm not sure if that——

Senator KERRY. But it was after the nonrecording that they split.

Ms. OSOWSKI. Yes, oh, absolutely, yes.

Senator KERRY. So, at the time of the recording, they were jointly liable.

Ms. OSOWSKI. I suspect that's true. I mean, I don't——

Senator KERRY. So, why would he recommend a malpractice suit?

Ms. OSOWSKI. We have no information about——

Senator KERRY. Do you think that is worth exploring?

Ms. OSOWSKI. Possibly.

Senator KERRY. Whether he has insurance?

Ms. OSOWSKI. Yes, it is certainly worth exploring, and we could do that.

Senator KERRY. Why hasn't John Hull been sued?

Ms. OSOWSKI. We have instituted foreclosure proceedings in Costa Rica, and in addition, we have referred the matter to the Justice Department for whatever action——

Senator KERRY. When did you institute foreclosure proceedings?

Ms. OSOWSKI. That was only done a few weeks ago, and that was because it was only at that point in time that the final legal steps had been taken the record the substitute mortgage.

Senator KERRY. How long ago did you refer this matter to the Justice Department?

Ms. OSOWSKI. April 1987.

Senator KERRY. Do you know what, if any, action between then and now?

Ms. OSOWSKI. I know the matter is under investigation and nothing further——

Senator KERRY. Do you know who is handling the matter at the Justice Department?

Ms. OSOWSKI. Yes. We have had contact with individual lawyers there.

Senator KERRY. Who did you refer it to specifically?

Ms. OSOWSKI. Do you have that letter, Jane?

Ms. CHALMERS. I believe the letter is in the documents. I think it was referred to the head of the Civil Division.

Ms. OSOWSKI. The head of the Civil Division.

Senator KERRY. Now, you saw this matter—are you positive of that?

Ms. OSOWSKI. Yes.

Senator KERRY. I just want to be certain for the record. Is that who it went to? The head of the Civil Division?

Ms. CHALMERS. The letter is in the documents. I don't have it in front of me, but I——

Mr. GARFINKEL. We can identify that.

Ms. CHALMERS [continuing]. Am sure we can confirm that.

Senator KERRY. OK. Now, with respect to the—the letter that I read you from John Hull to Tom Clegg was in 1985.

Ms. OSOWSKI. Right.

Senator KERRY. There were clear indicators of problems throughout 1985—serious problems. Mr. Clegg goes down to Costa Rica. Mr. Clegg finds a nonoperational entity. You have had jockeying around with insurance. You've got indicators that—well, before I ask that question, let me ask you this.

What happened to the money that you paid to Mr. Hull?

Mr. CLEGG. Based on my review, which I think we have submitted to you——

Senator KERRY. Again, could you speak in closely?

Mr. CLEGG. I'm sorry. Based on my review, we've submitted to you the detail that they provided us of where the money went. We reviewed a list of all the——

Senator KERRY. Excuse me. I'm just looking at the bells, and I think we have something going on that I have to—but go ahead.

Mr. CLEGG. I reviewed all the local expenditures down there, looked at the local invoices—the term that they use down there is "facturas"—that supported those expenditures. They were reasonably well supported. And you could tell within reasonable limits of where the money went. The problem was that there was no bank account in Costa Rica, and in an auditing sense, without a bank account it is sort of hard to——

Senator KERRY. Well, let me be more specific. Wasn't the money converted to cash?

Mr. CLEGG. Some of the money was, yes, sir.

Senator KERRY. Do you know how much money was converted to cash?

Mr. CLEGG. I think we have it in those records that we have submitted to you.

Senator KERRY. Would you refer to the records because the records don't speak, and we are being verbal here. So, I would like to get the amount of money on the record.

Ms. OSOWSKI. Unfortunately, we don't have an index for your book. I don't know if we can locate that easily.

Senator KERRY. There's an index in the front there.

Mr. CLEGG. Senator, you can see—what exhibit is this? The exhibit 64—they have a listing that they——

Senator KERRY. Let me interrupt you for a minute. I'm on the back end of a vote here. I've just got to run over and vote, and I will be right back. So, we'll recess just for a few minutes, and I'll be right back.

[Recess.]

Senator KERRY. Thank you very much for your patience, and I apologize for the interruption.

Mr. Clegg, you were telling me where the money went. And I'd like to try to pin that down a little bit if we can on the public.

Mr. CLEGG. They provided us with information which is part of exhibit 64.

Senator KERRY. Correct. "They" being?

Mr. CLEGG. The office, the staff at Mr. Hull's business.

Senator KERRY. OK, and what does that show?

Mr. CLEGG. I had a worksheet where I worked it up in detail, pulled it off, and I just made a rough calculation here. And it's approximately $200,000 for which checks were written and cashed in Costa Rica for colones—based on what I was told.

Senator KERRY. Did you see the cashed checks?

Mr. CLEGG. No, I did not. They're available I'm sure if anybody wants to look at them at the bank in Indiana.

Senator KERRY. Well, how do you know that's valid?

Mr. CLEGG. I don't. That's what they represented to me. That's what I said.

Senator KERRY. So, you have no idea whether those checks were spent on this business or not, do you?

Mr. CLEGG. Even if I saw the checks I wouldn't because they represented that they were—that they had the cash. This was——

Senator KERRY. And from what you saw—let me just ask you from your judgment and experience. From what you saw down there, do you think money was spent on it?

Mr. CLEGG. As I think has been said, there's money spent—there's a lot of money that appeared to be wasted, a lot of trips to San Jose, a lot of just incidental buying single parts that didn't make sense in a commercial sense. So, the question is whether it appeared that it could be spent on the——

Senator KERRY. At the very moment that you were there looking at where he said checks had been spent, was the factory in operation as set forth when you visited there?

Mr. CLEGG. No, sir. No, Senator, it was not. As I said earlier, it was not in operation.

Senator KERRY. Did you ever see the product of the factory?

Mr. CLEGG. No, Senator, I did not.

Ms. OSOWSKI. One of our other officers who——

Senator KERRY. Did you talk to the other partners, Mr. Clegg? Did you talk to the other partners?

Mr. CLEGG. Yes, Senator, I did.

Senator KERRY. What did they say?

Mr. CLEGG. Well, I hate to characterize exactly. They seemed to be frustrated with the situation. I think that they felt that they had made a bad business venture, it was communicated to me. All

the problems were blamed on Mr. Arroyo who it was alleged had done a poor job of managing.

Senator KERRY. Wasn't some of the money deposited in cash into a bank in Indiana?

Mr. CLEGG. Senator, the original check was deposited in a bank in Indiana. These checks that we're——

Senator KERRY. From Costa Rica.

Mr. CLEGG. Not to my knowledge.

Senator KERRY. I believe there's a reference in the same document that we're just referring——

Mr. CLEGG. That would have been inconsistent with the way they were operating if that was done.

Senator KERRY. I beg your pardon?

Mr. CLEGG. That would have been inconsistent with the way they were operating if that had been done.

Senator KERRY. Well, let me come back to that. I think that there is some record to that effect, but I will come back to it.

Mr. GARFINKEL. Just to make sure the record is clear, we are only aware of one amount of money being deposited in this Indiana bank, and that was the original disbursement that we made to Mr. Hull.

Senator KERRY. On the document that we were just referring to, No. 64—do you have that? On the third line down it says, "Patoka, 4/2/84"—that's Patoka, IN—"$25,000/John Hull's account." Is that accurate?

Mr. CLEGG. What do you mean? This was a check——

Senator KERRY. The date of a withdrawal on that money or a check paid on that amount.

Mr. CLEGG. That's correct.

Senator KERRY. So, a check would have been drawn from the loan amount or the business to $25,000 to John Hull's account in Patoka.

Mr. CLEGG. That's correct.

Senator KERRY. So, that is cash deposited into an Indiana bank.

Mr. CLEGG. Yes, sir. That's correct. But I thought you meant into the account of Maderas Tropicales.

Senator KERRY. No. I'm talking about into John Hull's account.

Mr. CLEGG. Yes, sir. That's correct.

Senator KERRY. So, that's correct.

Mr. CLEGG. That is correct.

Senator KERRY. Well, did you ask why $25,000 was going into John Hull's account in Indiana?

Mr. CLEGG. Yes, I did. The answer that I got was that he was writing checks to buy colones in Costa Rica. He was writing U.S. dollar checks to buy colones in Costa Rica.

Senator KERRY. He was writing checks to convert to colones?

Mr. CLEGG. Convert the dollars. He was taking a U.S. dollar check to Costa Rica.

Senator KERRY. Why wouldn't he do that through a bank in Costa Rica?

Mr. CLEGG. Why didn't he? That's the question.

Senator KERRY. You didn't ask him that.

Mr. CLEGG. I did ask him that.

Senator KERRY. And what did he say?

Mr. CLEGG. Because they cashed it with other people. That was one of the things that was on my memo where I said they did not establish a bank account.

Senator KERRY. Well, did it not strike you as very bizarre?

Mr. CLEGG. Of course, it did. And I asked—that was one of the things that I asked him to correct.

Senator KERRY. Well, what did OPIC do about it at that point?

Mr. CLEGG. We made a list of items, which we furnished to you in the record, and we asked them to correct it. I went back in January to see if they had taken those items and corrected them. In fact, the bank account was established subsequent to my visit.

Senator KERRY. This would be in 1986. Is that correct?

Mr. CLEGG. Yes.

Senator KERRY. They weren't doing much business by then, were they?

Mr. CLEGG. That's correct.

Senator KERRY. Was there any money flowing through this new bank account?

Mr. CLEGG. There was a modest amount. I've forgotten exactly. There was a small amount.

Senator KERRY. So, from the time the loan was approved in 1983 through 1986, there was no bank account.

Mr. CLEGG. In the host country, in Costa Rica. I'm not sure exactly what date the bank account was established. It might have been established subsequent to my visit in 1985.

Ms. CHALMERS. I believe the records show that it was in October 1985 that the bank account in Costa Rica was——

Senator KERRY. The bank account was opened in 1985.

Ms. CHALMERS. Right.

Senator KERRY. I apologize for that. OK.

Now, let me come back to the question I started to ask before, and I interrupted it to ask about the money. Here there are irregularities in the money, to say the least, serious questions about the processing of the loan, questions about legal questions to which you didn't have the answers, questions about assets to which there was no real investigation, startup company, site visit, nothing happening, to say the least, partners with whom you had conversations who raised very serious questions about what was going on.

Why was it that fraud proceedings or a criminal investigation or some sort of stop-the-process effort didn't take place sooner? And I think that's a question on all of our minds.

Mr. GARFINKEL. From a commercial standpoint, we wanted to make sure we had a mortgage in place. And so, we wouldn't begin a foreclosure proceeding until everything was duly registered. And obviously, we had some problems——

Senator KERRY. But should you do that before you issue the loan?

Mr. GARFINKEL. Well, clearly——

Senator KERRY. I mean, you are putting—now, that's an astounding comment. Before you foreclose, you want to make sure the mortgage is in effect, which it is supposed to be, before you give him the money.

Ms. OSOWSKI. Right. We explained to you the problem with the lawyer who did not register the mortgage. Now, obviously, if he

had not defrauded us, we wouldn't have been in this situation. Given the situation we were in, our lawyer in Costa Rica, Mr. Pacheco, advised us that we might still need Mr. Hull's cooperation. He wasn't sure whether additional signatures might be required. And so, he advised us to hold off on a foreclosure proceeding until we had completed all the necessary steps. In the meantime, Mr. Clegg was working to try and see if there were a possibility of getting additional equity participants involved in the project.

Mr. GARFINKEL. I can assure you, Senator, that this is quite an unusual circumstance, and that 99 percent of our loans, indeed, our mortgages are duly registered, and we are not in this kind of a position.

Senator KERRY. What made this unusual? I mean, what was so special about this loan to some farmer down in Costa Rica, no special—why did this loan sort of dribble through like that?

Ms. OSOWSKI. It's basically a combination of dealing with small businesses and dealing with developing countries and the problems that we have cited before with lengthy legal procedures and so on. We tried to first look to make sure that the project is going to be getting off on a good footing and not being put at a disadvantage. And when it appears that there may be delays, sometimes we have to make changes or decisions that might otherwise not be what we would prefer. I think, you know, along the processing, these things occur, and in order to keep the transaction moving and not to put the project at a disadvantage, sometimes this is necessary.

Now, obviously——

Senator KERRY. You know, I listen—I mean, I hear what you are saying, but I've got to tell you, as I look through the records here—I mean, you didn't even find out how much the property there was really worth.

Ms. OSOWSKI. We had appraisals, both for the original property and the substitute property that were obtained by an appraiser.

Senator KERRY. What is it worth?

Ms. OSOWSKI. I think those records are in the file. I know for a fact that they did exceed the value of the loan. I'm sure we could locate——

Senator KERRY. According to whose appraisal?

Ms. OSOWSKI. The independent appraiser or the certified appraiser in Costa Rica.

Senator KERRY. Did you pay for the independent appraiser?

Ms. OSOWSKI. We have a clause that expenses have to be reimbursed under our loan agreement. Now, I suspect that——

Senator KERRY. Who hired the independent appraiser?

Ms. OSOWSKI. I'm sure that Maderas gave us a recommendation. Both of our lawyers were aware of who the appraiser was and his qualifications.

Senator KERRY. Well, why is that independent? What's independent about that? John Hull wants the money. John Hull gives you an appraiser, and you take his word for it?

Ms. OSOWSKI. Well, we have to, obviously, rely on our contacts down there.

Senator KERRY. And if your contact is only the person asking for the loan, do you go along with that?

Ms. OSOWSKI. No. I mean, our local lawyers are involved. If they thought that the appraiser had no qualifications to be giving his appraisal——

Senator KERRY. Let me ask you in real terms. The fact is you can't really tell me today what the land is really worth.

Ms. OSOWSKI. That's absolutely correct. And I don't think anyone can in any transaction.

Senator KERRY. How can you make a loan? How can you make a loan then? How can you sit there and tell me that the collateral covers?

Ms. OSOWSKI. Because I think as Mr. Draggon explained before, we do project financing. We look to the project cashflow primarily for-——

Senator KERRY. There was no cashflow.

Ms. OSOWSKI. But that obviously is something we can see with hindsight and not something that one could see when the projections were being put together when the loan committee was processing the loan. I don't know if Mr. Draggon has anything else he would like to add on that point.

Mr. DRAGGON. Let me just emphasize again that our approach is to work with sponsors to build a strong project in the host country. Collateral, insurance, key man life insurance, and other security is secondary to our effort to structure a strong project. That's our approach. I would say overall we are very successful when you look at our entire portfolio. I said earlier our losses——

Senator KERRY. Well, are all——

Mr. DRAGGON [continuing]. There were only 6 percent of everything disbursed. I think that overall we are meeting our congressional mandate in that regard.

Mr. GARFINKEL. Could I just add? There's also a certain element of good faith required in going into these projects. And to some degree, we looked upon Mr. Hull with a degree of good faith assurance, and obviously we were wrong in this case.

But if you look at our program overall, Senator, you'll find, No. 1, that our loss rate is roughly 6 percent of our total portfolio. We had over 6,000 project inquiries since 1983, over 1,000 applications. We have rejected 500 of those projects because they didn't meet our credit criteria.

Senator KERRY. You know what strikes me here and the thing that I'm trying to get at is I'll bet you that if I looked at those 500 that you rejected—and we may look at some of those you rejected—that they were stronger than this one at the outset. And I'll lay you odds that if I looked at some of those that you've approved, I'm going to find a pattern of approval requirement that is stronger than what you required here. I would hope so. Is this the standard operating procedure for the approach to loans?

Mr. GARFINKEL. No. As we mentioned——

Senator KERRY. Was it the standard operating procedure at the time?

Mr. DRAGGON. Senator, I went back——

Senator KERRY. Could you answer that? Was it the standard operating procedure at the time, or is this something of an aberration? If it isn't an aberration, maybe we ought to ask what OPIC is doing. Is it an aberration?

Ms. OSOWSKI. Certainly the confluence of all these events is an aberration.

Senator KERRY. Well, what was so special about this loan that it kind of made its way through? How did a loan with so little financials, so little checking, so little input, and so little fundamental financial, sound backing get approval from you folks?

Mr. GARFINKEL. If you go back to our program back at that time, I don't think our finance program was as extensive as it is today. And I don't think our money was in as much demand. I think we were obviously eager to do something in the Caribbean. We were supportive of the Caribbean Basin initiative. And obviously, we looked upon those projects, particularly of the small business dimension, with a great degree of favor. And we continue today to emphasize projects in the Caribbean, in Africa, and other regions of the world that we feel are of need of development. So, that might explain to some degree why a project like this slipped through.

Mr. DRAGGON. On top of that——

Senator KERRY. Can I ask——

Mr. DRAGGON [continuing]. To have problems with the accountants and the attorneys is a very, very unusual situation. We simply haven't run into it in other cases.

Senator KERRY. Mr. Clegg, let me ask you something because you had an initial contact in this. You were in Costa Rica. Correct?

Mr. CLEGG. When?

Senator KERRY. In 1983 when you initially had breakfast with John Hull.

Mr. CLEGG. That's correct.

Senator KERRY. How did you come to be in Costa Rica at that point in time?

Mr. CLEGG. I was down working on some other projects that we had in Costa Rica.

Senator KERRY. Who were you working with?

Mr. CLEGG. I'm sorry. You mean——

Senator KERRY. On these projects, who were you working with?

Mr. CLEGG. Our attorney. Our attorney, Mr. Carballo.

Senator KERRY. And how many projects were you working on at that point in time?

Mr. CLEGG. One.

Senator KERRY. One project?

Mr. CLEGG. Yes, sir.

Senator KERRY. Now, who suggested to you that you meet with John Hull?

Mr. CLEGG. Mr. Curry at the U.S. Embassy, the economic officer at the Embassy.

Senator KERRY. What did he say to you at the time?

Mr. CLEGG. They were words to the effect—I'm paraphrasing, but there are two people here at the Embassy that have expressed an interest in getting some OPIC financing for some projects in Costa Rica, and could you meet with them for a few minutes and tell them something about the OPIC program.

Senator KERRY. Who was the other person?

Mr. CLEGG. I don't remember his name. He was a person that was interested in establishing a shoe factory in Cartago, which is right outside of San Jose.

Senator KERRY. And that was the basis of your introduction to John Hull.

Mr. CLEGG. It was the basis of my introduction?

Senator KERRY. Introduction to John Hull.

Mr. CLEGG. Introduction, yes, sir.

Senator KERRY. Did you personally have subsequent conversations with him prior to the loan being approved?

Mr. CLEGG. Only incidentally if at all, but certainly nothing substantive.

Senator KERRY. And were you dealing with Margaret Walsh on this?

Mr. CLEGG. Well, I referred—oh, excuse me. Go ahead.

I referred the loan to the finance department, as is our standard procedure, and I had asked them to deal with them. And basically any dealings with Mr. Hull at that time were between our finance department and Mr. Hull.

Senator KERRY. OK. So, the two principal people who would have sort of nursed this loan along, processed it, and made the original judgments are both not here. That's Margaret Walsh and Vanessa Burgess. Is that correct?

Mr. GARFINKEL. That's correct.

Mr. DRAGGON. Vanessa Burgess has resigned from OPIC, and is working in New York as an investment banker at this time.

Let me just add, Senator, that Margaret Walsh is in for a medical test for a life-threatening illness today.

Senator KERRY. No, I've never raised a question here about why she wasn't here. I accepted the medical emergency, and nobody has asked you what kind of emergency it was or anything. I want to establish that they're the people who really were dealing with this on a day-to-day basis, and obviously leave some things open. That's all. Nobody is questioning anything else. I assure you.

Mr. GARFINKEL. Let me just add, Senator, that Ms. Osowski did have conversations with both of these parties, and maybe she could add their recollections about this part of the transaction.

Ms. OSOWSKI. You know, the questions—obviously, we knew what your committee was interested in terms of if there were any undue pressure or anything of that nature that was brought to bear. And they obviously had no information or recollection of that respect. It came in as a very routine project, as far as they were concerned.

Senator KERRY. Well, now, that sort of raises a second issue, and then I want to hear Mr. Crone if we can. Somebody has got to wake up. [Laughter.]

It's a nice tune. What are we playing? [Laughter.]

At least I'm not getting so old that I can't pick that one up. [Laughter.]

The question of sort of outside input has arisen because of the pipeline issue. And I guess that raises a lot of questions. I mean, I got to tell you. As a member of the Foreign Relations Committee I am astounded to sit here and learn that OPIC was negotiating a non-Israeli attack pact against a pipeline.

Can I ask you? Who drafted that document that suggests that Israel would be approached and sign a document actually agreeing not to attack a pipeline in Iraq?

Mr. GARFINKEL. That was drafted by Mr. Rappaport's attorney I believe, Jay Kaplan.

Senator KERRY. And he presented it to you folks?

Mr. GARFINKEL. That's right. This was their scheme. We had insisted on a commercial scheme, and they backed away from putting dollars up as salvage. They proposed this wild scheme, and we of course went ahead to the Justice Department to find out if they thought this was legal because we certainly had our serious doubts about the legality of it.

Senator KERRY. Apart from the legality of it, didn't the feasibility of it simply strike you as so absurd that it was beyond even worth going to the Justice Department about?

Mr. GARFINKEL. Go ahead, Mac.

Mr. JOHNSTON. We certainly thought that it was infeasible. Going to the Justice Department, frankly, was a convenient way of disposing of it.

Senator KERRY. Why couldn't you just say "No"? What made it difficult to say "No"?

Mr. JOHNSTON. It wasn't difficult to say "No." We said we didn't think it would work.

Senator KERRY. Why couldn't you just say "No, this is not feasible"? Why did you have to send something to the Justice Department to get rid of it?

Mr. GARFINKEL. There was interest, Senator, in this project, as the record demonstrates, from the NSC. The State Department was also very interested in this project. And in order to dispose of this in the context of this interagency interest, it was advantageous to have an independent entity like the Justice Department come back and basically take a position which we supported. And that was that we thought this wasn't viable or legal.

Senator KERRY. Did you know at the time that Mr. Wallach was involved both with Mr. Meese, as well as with this project?

Mr. GARFINKEL. Mac?

Mr. JOHNSTON. Well, first of all, it was certainly no secret in town that Mr. Wallach was an associate of Mr. Meese. We certainly didn't know of any connection with Mr. Meese and this project.

Senator KERRY. No, that's not my question. But you knew of Mr. Wallach's connection to Mr. Meese and to the project at the time. Correct?

Mr. JOHNSTON. I'm sorry. We knew of Mr. Wallach's association with Mr. Meese at the time he was representing Mr. Rappaport on the project; yes.

Senator KERRY. Would not, therefore, it be fair to assume that sending something to Mr. Meese for potential adjudication—or not adjudication, but for potential opinion which Mr. Wallach had an ability conceivably to impact might be a way not of getting rid of it, but of approving it?

Ms. JOHNSTON. I think we were quite confident that the inquiry, No. 1, could only be answered in one way. No. 2, copies of the inquiry were delivered elsewhere in the Department of Justice. And we felt that it would be disposed of in proper channels and that the matter would come to an end.

Senator KERRY. How did the State Department feel about this project?

Mr. JOHNSTON. The State Department was supportive of the project. This project was one that would have involved not only some very substantial benefits for United States contractors, but was beneficial for Iraq and for Jordan. And that's why we were particularly interested in cooperating and supporting this project ourselves.

Mr. GARFINKEL. In fact, the State Department brought the project to our attention initially, and they signed off on every cable that went out with regard to this entire matter.

Now, I would add that they did ask for a low profile on this project, and we understood that had to do with the fact that Bechtel was a big player in the project, and the Secretary of State obviously had connections with Bechtel having been employed by the company prior to joining the Government.

Senator KERRY. Do you know whether or not the NSC staff was talked to by Mr. Wallach?

Mr. GARFINKEL. We are pretty sure they were.

Mr. JOHNSTON. Whether the NSC staff was talked to by Mr. Wallach?

Senator KERRY. Regarding a push to take an interest in this?

Mr. JOHNSTON. I know that he spoke to people on the NSC staff about the project, yes.

Senator KERRY. Did you know at the time of Wallach's financial interest in it?

Mr. JOHNSTON. No. Only in the most indirect way, if you like, in that my understanding was that he was representing Mr. Rappaport and presumably not gratis.

Senator KERRY. Presumably? I'm sorry.

Mr. JOHNSTON. Not gratis. In other words, I expected that in that representation, he would be paid for his services.

Senator KERRY. Did you know of his financial interest in the line itself?

Mr. JOHNSTON. Absolutely not, nor do I have any particular knowledge now.

Senator KERRY. Didn't you characterize to staff here the feelings of the State Department as cool?

Mr. JOHNSTON. No.

Senator KERRY. Interested, but cool?

Mr. JOHNSTON. That may have been their understanding. The State Department, as I perceived it, because of the Secretary of State's former association with Bechtel, was not embracing the project in a terribly active way. But we had every reason to think that the State Department was encouraging and supportive of the project.

Mr. GARFINKEL. They were aware of what was going on every step of the way, and if they wanted to let it be known that they disagreed with our course of action, they could have done so by simply not approving our cables, which is the natural approach that State takes with these issues.

Senator KERRY. Where would you say the real push for this was coming from?

Mr. GARFINKEL. Well, it was clear that the people who were behind this thing from a business standpoint, whether it was Rappaport or Wallach or Bechtel, had tried to get the National Securi-

ty Council to be supportive of this project. And we did hear actually on our own initiative from the National Security Council that they did, indeed, see this project as important.

Senator KERRY. Were there any other projects that you can think of that come to mind where the NSC expressed that kind of interest to you?

Mr. GARFINKEL. No.

Mr. JOHNSTON. Not to me.

Senator KERRY. To any of you?

Mr. DRAGGON. No, Senator.

Senator KERRY. Did you find it unusual that the NSC was involved in pushing this?

Mr. JOHNSTON. Under the circumstances, not really, again because, as I mentioned before, of the Secretary of State's recusal. So, while we found it to be an unusual event, we didn't find it suspicious or inappropriate.

Mr. GARFINKEL. As I mentioned earlier, we are routinely asked to look at projects by different agencies in the government, as well as the Congress. And so, we as a practical matter will take these referrals into account on a regular basis.

Senator KERRY. Had you not had prior dealings with Mr. Rappaport in some way?

Mr. JOHNSTON. No.

Senator KERRY. Did OPIC not have information regarding Mr. Rappaport that might have raised questions about wanting to do business with him?

Mr. JOHNSTON. We sought to obtain some information about Mr. Rappaport, and we did receive a report from the CIA. I'd like to make the observation that we were talking about here an undertaking or an exposure that OPIC might undertake, which would be very large, and we were not relying on the good faith of Mr. Rappaport nor of any other individual, and that's why we were insisting on this very strong security package to compensate and protect ourselves in the event of a loss.

Senator KERRY. Well, I understand the degree to which you went—the security package. I read through the information, and I see that there were a lot of trips, you know, London discussions and so forth and so on, and people meeting here and there to try to pull together a security arrangement.

I must say that I find the mere pursuit of this somewhat astonishing. I mean, the notion that as much energy went into negotiating it, and as much interest was expressed by various parties to it so that you are saying to me, "Well, we kind of wanted to dump it on the Justice Department"—rather remarkable. I mean, I can't see how you thought you would have had a legitimate security which guaranteed a pipeline against a potential attack or somehow was going to indemnify you and permit adequate salvage in a situation should there be a pipeline and some interruption of it.

Mr. JOHNSTON. Sir, we would have had appropriate and adequate security under the formulation that we were prepared to go forward with.

Senator KERRY. And what would that have been?

Mr. JOHNSTON. It is described in several exhibits, and it was memorialized in an agreement.

Senator KERRY. Let's look at that. Why don't you show me what you would have considered adequate security for a pipeline guaranteed against attack by some third party?

Mr. JOHNSTON. The security arrangements that we were prepared to accept were memorialized in a letter to Mr. Kaplan dated August 29, 1985.

Senator KERRY. Which is that in the book? Can you refer me to it?

Ms. CHALMERS. I don't think it is in your book, but it was among the documents that we submitted to your staff.

Mr. GARFINKEL. I think Mr. Blum is familiar with that document.

Senator KERRY. I beg your pardon?

Mr. GARFINKEL. I say I believe Mr. Blum is very familiar with that document.

Senator KERRY. Would you describe it please?

Mr. JOHNSTON. The document itself is a letter to Mr. Kaplan who represented Mr. Rappaport, and it describes in principle the arrangements which at that time they indicated or he indicated on behalf of Mr. Rappaport that Mr. Rappaport would be willing to arrange and to accept as the security package which would compensate OPIC in the event that it sustained a loss in respect of its undertakings with respect to the project.

The security package or salvage package consisted of several elements constituted of both cash and letters of credit. In turn, letters of credit in some cases would back up the establishment of funds over time. The letters of credit were there so that if those funds didn't arise that the moneys would be there.

Senator KERRY. Give me the sort of layperson's English, bottomline version of what the conditions were. What was the quid pro quo here?

Mr. JOHNSTON. What the conditions were?

Senator KERRY. Yes, of your suggestion in the letter, which I have in front of me. Is this the August 29, 1985, letter?

Mr. JOHNSTON. Yes, sir.

The letter speaks of salvage in the amount of $340 million which, of course, was to correspond to the outside liability which we and the other insurers would undertake. And that would consist of, in the first part, $75 million which in turn would involve a letter of credit for up to $50 million, the $50 million which is described in another part of this letter as——

Senator KERRY. OK. Let me try to facilitate this process a little bit if I can.

Paragraph 3, a letter of indemnity from the State of Israel in a form satisfactory to the insurers in the amount of $150 million of which $50 million is in immediately available funds. Correct?

Mr. JOHNSTON. Yes.

Senator KERRY. So, you contemplated an indemnity from Israel in what you say was an adequate security package.

Mr. JOHNSTON. Yes.

Senator KERRY. How do you suppose you would have been able to get that?

Mr. JOHNSTON. Well, that was Mr. Rappaport's problem. Mr. Rappaport——

Senator KERRY. OK, it was his problem, but you accepted that as something that was worth even talking about—negotiating. Here's a letter. Correct?

Mr. JOHNSTON. It's not a letter, but it's a letter of indemnity which is a——

Senator KERRY. How would you envision an arbitrator deciding whether or not Israel blew up a pipeline or not?

Mr. JOHNSTON. Under the arrangements that were described to us andof which I think there is a draft proposal, there would be an arbitral panel which would make a finding and would evaluate whether that event, in fact, had taken place and the extent of the loss that was sustained as a result.

Senator KERRY. What do you think the implications of that would be for U.S. foreign policy?

Mr. JOHNSTON. I beg your pardon?

Senator KERRY. Do you see any implications in terms of United States foreign policy in that kind of decision being made in Israel? Do you contemplate a situation in which Israel would be willing to effectively make peace with an Arab country and say we're not going to blow up anything there ad infinitum in interest of this? That's essentially what you're saying.

Mr. JOHNSTON. Well——

Senator KERRY. I don't understand——

Mr. JOHNSTON. This is not a determination that we would make.

Senator KERRY. Well, I understand, but aren't you supposed to make some preliminary determinations about what's worth pursuing and spending your time on and what isn't?

Mr. GARFINKEL. This project had a lot of developmental benefit. I just don't want you to think that we were pursuing this for some foreign policy reason. There was over $1 billion in equipment that was going to be procured from companies——

Senator KERRY. It is obvious to me you were pursuing it with no foreign policy reason. That's clear.

Mr. GARFINKEL. Right.

Senator KERRY. I don't think that for one instant. That's what concerns me.

I want to know how you thought you would be able to implement this.

Mr. GARFINKEL. Before we'd go forward, this thing would have to go to our board, No. 1. The State Department was going to have to sit there and look at all these implications. So would other agencies. So, what we were looking at was this thing from a commercial standpoint. The policy issue as to whether or not this made sense from a policy standpoint was going to be addressed by our board. And our insurance department was preparing the necessary commercial package so that it would be ripe for consideration by the board.

Mr. O'SULLIVAN. Excuse me. I haven't been sworn. I don't feel that I should speak unless I have been. My name is Robert O'Sullivan. I was the lawyer who worked on the insurance project.

Senator SANFORD. Well, raise your right hand.

[Witness sworn.]

Mr. O'SULLIVAN. There's a whole parallel line of discussion with the State Department on this project, and it begins with the 1984

approach as to whether the project could be done. On the time line, it then resumed very strongly in the beginning of 1985, because in parallel with discussion of this project with Bechtel and General Electric and the subcontractors, OPIC had been asked to try to negotiate an agreement with the Government of Iraq to make its programs available there. And there is a lot of cable traffic to and from Baghdad describing those negotiations and how the coverage would be used. And one of the risks identified was the Israeli risk to this pipeline.

So, Embassy officers were quite aware that this might be a possible use of OPIC insurance, and so was the State Department from the start, from—well, my first trip to Iraq was February 1985, and it was extensively reported that the oil ministry was interested in a possible OPIC agreement. Other ministries were not, and there has never been an OPIC agreement signed.

Senator KERRY. But you see there is a certain contradiction in the flow of what I'm hearing. Your testifying to the legitimacy of this to the sort of immediate interest of the State Department, to the effort to work out agreements with Iraq and how this was all part of a State Department approved concept and NSC approved concept. But then I am hearing from Mr. Johnston that we sent it over to Justice really to get rid of it, not to get it approved. Now, there's a dichotomy here.

Mr. JOHNSTON. In that case, sir, we haven't been——

Senator KERRY. Am I misinterpreting you?

Mr. JOHNSTON. You were speaking about the salvage package that we were prepared to accept and which we thought, if it could be assembled, would provide a prudent basis for us to go forward and to support this project which had many benefits for the United States and which we had indications of high-level Government support for.

When Mr. Rappaport and his representatives indicated that they were not prepared to proceed on the basis of this arrangement and offered an alternative suggestion which was that, in essence, some sort of aid funds would be reserved and used to pledge as our security in lieu of this package. That is what we sent to the Justice Department because No. 1, as we've indicated, we didn't believe that it was viable or legal, and it was appropriate to send it to the Justice Department to dispose of it there.

Senator KERRY. All right. So, I accept that. Your testimony is essentially then that it was the escrowing of U.S. aid funds that was more of the flag to you for which you thought the Justice Department ought to rule rather than the commercial interest or enterprise itself per se, and that the commercial aspects of this remained viable and were still of interest to all those parties and should have been pursued. Is that correct?

Mr. JOHNSTON. I think that's correct.

Senator KERRY. It was the form of indemnification——

Mr. JOHNSTON. Yes.

Senator KERRY [continuing]. That troubled you——

Mr. JOHNSTON. Yes.

Senator KERRY [continuing] Not the notion of it.

Mr. JOHNSTON. That's correct.

Senator KERRY. I will accept that.

We have a couple of other panels and one person in particular I want to have testify with respect—or all of whom I want to have testify with respect to the loan aspect of the John Hull piece.

I would like to leave the record open so that we can follow up if there are any additional questions, which I already know there are to some degree.

I know that none of you were part of the decision process with the exception of Mr. Clegg and perhaps distantly Mr. Garfinkel in terms of the actual sort of legal process, et cetera. And the record should reflect that you are trying to reconstruct. Your coming here and recognizing that this loan was made as part of the normal course of business and you didn't specifically—any of you—initiate it or assume final responsibility for the passage of it. And I understand that. And I appreciate the effort you have made here today to try to help us to understand it and reconstruct it. We are particularly appreciative with the work you have done with staff to do that.

There still are, I have to tell you, some questions that are outstanding simply by virtue of not being able to talk to some of the folks who were part of the process. But I think the record has now grown much clearer and there is a much better sense of what may or may not have transpired here.

There still are—and I have to tell you truthfully, there still are real issues as to why it took so long and where we're going now in terms of both the recoupment process of the losses as well as the investigative criminal aspects of this in terms of potential fraud and so forth. And I hope that as we go on in the next days, we are going to get to the bottom of this.

I know that it is beating a dead horse a little bit, but this isn't pretty. This isn't the way in which we have been told it's supposed to work. And I don't think many people take pleasure in seeing good dollars go out the window in this form. And I am delighted to hear that procedures have changed. I suppose—well, I think it is unfair to ask more questions as to why not sooner, and I won't do that. But I want to thank you for coming up here, and I know you didn't look forward to it.

And let me just turn to my chairman, the other chairman, and ask if he has any questions.

Senator SANFORD. Well, time is running out, but I would like to just ask one short line of questions to Mr. Garfinkel.

Now, this project like many others originated with the Embassy in the particular country, in this case Costa Rica.

Mr. GARFINKEL. That's correct.

Senator SANFORD. They presumably were approached by the promoters, the investors, the businessmen inquiring about the possibility of OPIC aid I assume.

Mr. GARFINKEL. That's correct.

Senator SANFORD. So, then they forwarded that to you——

Mr. GARFINKEL. That's right.

Senator SANFORD [continuing]. With the recommendation they thought it was a good idea.

Mr. GARFINKEL. Well, they looked at the project and the sponsors after we asked them for some background checks, and they came back——

Senator SANFORD. Going back to the original purpose of the organization, who decides that if this particular project that was first presented to an embassy—who decides if that fits into an overall development strategy that ultimately does lasting good for the country where it is? Or is there such a broad strategy that you try to fit it into? Or is it just that if this produces jobs, it must be all right?

Mr. GARFINKEL. We have definite interests in promoting development in certain regions of the world. And there is no question that we have concentrated our programs on the Caribbean and in Africa. We also have——

Senator SANFORD. What I'm really getting at what is OPIC's view of development, and what have you done to decide whether this is just an investment that creates jobs or whether there is an overall development pattern.

Mr. GARFINKEL. We have a development department that analyzes every project before it goes forward to see if it fits into that scheme, and that department analyzes what the developmental benefits are to the project, whether there are adverse effects, and make sure it's consistent with our statutory mandate, Senator.

Mr. DRAGGON. Let me add in the context of the project in Costa Rica, from a development standpoint, first of all, it was an export project that would generate foreign exchange for the country of Costa Rica.

Second, it was taking lumber and turning it into higher value goods for export value on that and therefore, maximizing the value of the country's natural resources.

Senator SANFORD. Well, I don't doubt that it may have been beneficial in a limited way had it come forward as a running business. I'm really trying to ask whether you can demonstrate that OPIC has done any good over the years?

Mr. GARFINKEL. I think we can.

Senator SANFORD. Can you demonstrate—and this is a serious question. Obviously you have done no harm, and you have helped here and there, but what I am concerned with is the long-range development of the region. We have been concerned with the long-range development of Central America for many years, yet we have not been successful and have never proceeded to the point where we have a strong, underlying economy. And I am simply asking, Are you relating to such a long-range plan. Or can you relate to it? And do you have any report that shows the overall effectiveness of OPIC?

Mr. GARFINKEL. Senator, I'm glad you asked that question. Indeed, such a development report does exist, and we make it available to the Congress on an annual basis. And we'd be pleased to sit down with your staff. A copy of it has been provided to me. But we would be pleased to sit down with your staff and go over what we think our contribution has been. We are pretty proud of the projects we have put——

Senator SANFORD. I'm a strong supporter of the organization. I'm simply trying to see if we are using the assets in a way that carry over into the long range for the best possible degree. And I don't want to take any more time now, but I would like to pursue that, and would like to have a package of materials.

Mr. GARFINKEL. We'd be pleased to provide that to you.

Senator SANFORD. Well, thank all of you for being here, and thank you for your cooperation. And I don't think we will have any further need this morning except that you might want to stay and——

Mr. GARFINKEL. I just would like to add in closing that we would be pleased to work closely with this committee both in responding to any additional questions you may have on either project. We will certainly keep the staff advised of developments relative to the Justice Department inquiry, as well as our own foreclosure proceedings.

And thank you again for the opportunity to come up there.

Senator SANFORD. Thank you.

I would like to ask Mr. William Crone if he would please come forward now. Mr. Crone, if you would just sit up here behind one of these mikes. Mr. Crone, would you mind raising your right hand and being sworn for the testimony you are about to give?

[Witness sworn.]

Senator SANFORD. Thank you very much.

Would you please tell the committee for the record something about your background and something about your connection with this project from the beginning?

STATEMENT OF WILLIAM CRONE

Mr. CRONE. OK. First, if I may—I only knowed about this committee last night. I'm here on my own.

Senator SANFORD. I understand.

Mr. CRONE. I have not been contacted by the committee, the Justice Department, or OPIC. It's just an accident I got here.

Senator SANFORD. We are glad to have you. Appreciate your coming.

Mr. CRONE. OK. I've been in—well, my family has been in the logging business all its life. I had a sawmill in Indiana, and then I went to Costa Rica and started a sawmill in Costa Rica. And I met Mr. Hull in Costa Rica in 1978. And he seemed, you know, like a very nice person and everything. Got to be good friends. We was very good friends up until the day we signed this loan. From that day forward we have had problems.

Senator SANFORD. Well, go ahead and explain those problems, explain how the transaction was put together, explain where you originally made contact with OPIC.

Mr. CRONE. OK. We originally had a loan to start with. We made an application for $500,000. That was to put up the wood project and buy a sawmill in Guanacoste, Costa Rica, which had all the machinery—more machinery than they have now at this time. And at that time—but they rejected the loan—OPIC. So, I had no more to—you know, I didn't think any more about it.

Mr. Hull and Mr. Arroyo—they kept trying to get money out of them. So, finally on this day of the signing of the loan, they say, "We finally got this loan through. Let's go down and sign the loan." OK, I went down. And we were supposed to put up our own farm for security. We got there. Mr. Hull had put up this other person's farm as security without his even knowledge of it. He had

10-percent ownership in the farm, and had power of attorney in Costa Rica. So, we signed the loan that day. And from that day on, they never talked to me any more about it.

Senator SANFORD. Did you put up your farm as security?

Mr. CRONE. No. I was going to.

Senator SANFORD. Just lucky.

Mr. CRONE. Right. Well, maybe, maybe not. I don't know yet.

So, he put up this other person's farm. From that day on, I said, "Mr. Hull, this is not right. This is not our farm." And he said, "Oh, no, no. I have some squatter problems on that. Let's use that and everything." But it's taking so long with this loan and everything, I thought it was going to be a good deal. So, we went ahead and I signed the loan that day.

And then from then on, him and Mr. Arroyo—they did not talk to me any more. They did not want me in the plant or anything, and I had more experience than any of them in this whole business because I had a background in the woodworking business, and they had nothing.

Then Rudy Stiehler was a good friend of mine. He is the one that has brought all the OPIC in Washington and everything, this, that, and the other. He kept filling me in what was going on. And one of the first things Mr. Hull did was took out the money to pay himself for equipment that was supposed to be his part of the loan, his part in the decision. And from then I just kind of watched it.

And about a year ago, Diana Chavarria told me that they had a problem with the other farm. In the meantime, I knowed they'd sold this other one. And they was trying to get the farm in as security on this loan.

So, therefore, I just set back and waited until about approximately 2 weeks ago the brother of Diana Chavarria told me that they had finally got OPIC—they got farms in that they was going to repossess on these two farms.

So, I mean, if you want to ask me questions, maybe I can——

Senator SANFORD. Let me interrupt just a second. If you'll look at that clock in the back, that means we're having a vote on the floor, and I'm going to have the chief counsel continue this line of questions until Senator Kerry returns or I return. It will all be in the record, and I apologize for having to step out. But we could either do that or take a recess. Given that the passage of time, I think it would be better if we went ahead.

Mr. CRONE. OK.

Mr. BLUM. Thank you, Senator.

Did you understand when this loan was made that you were required to contribute your going sawmill business as the capital contribution to the new firm?

Mr. CRONE. No. At that time, no, because that's the reason Mr. Hull had 60 percent of the deal. He was supposed to be contributing everything that was going to be except for our farms that we were going to put up.

Mr. BLUM. In other words—you're saying here you never understood that you had to put up some capital to qualify for this loan. Is that correct?

Mr. CRONE. Nothing more than the farms; no.

Mr. BLUM. And the farms that were put up were not your farms.

Mr. CRONE. Yes. The farm that I was going to put up, yes, was mine.

Mr. BLUM. But in the end you never put that farm up.

Mr. CRONE. No.

Mr. BLUM. Now, what exactly was to be in this business? What was the equipment that was going to be used for the business?

Mr. CRONE. Well, they were supposed to go to the States and buy new equipment for this business.

And also, now Mr. Hull had 60 percent the day of the signing supposedly. They give me 15 percent. Mr. Arroyo took 25 percent. But during the time until Mr. Clegg come down, they had never given me anything.

Mr. BLUM. In other words, you didn't have shares in this corporation until Mr. Clegg came down. Is that correct?

Mr. CRONE. Right. And then after he came down, they put me as vice president and 40-percent owner, which I didn't sign any papers to receive or anything.

Mr. BLUM. Was the equipment for this factory ever purchased?

Mr. CRONE. Yes, but it was junk. They bought used equipment in the States. They did not buy any new equipment like their project said they should have and everything.

Mr. BLUM. Did Mr. Hull sell any equipment to the company?

Mr. CRONE. Yes. Mr. Hull had a truck, his personal—that was in one of his other companies that he sold to this company. And then afterward he sold this truck for Maderas Tropicales to a individual in Costa Rica with only a postdated check. And then the gentleman sold the truck later, and Mr. Hull could not recuperate the money because the check was no good.

Mr. BLUM. Now, what happened in your understanding to the proceeds of the loan? We heard earlier that it was deposited in an Indiana bank account. Do you know what became of it after that Indiana bank account?

Mr. CRONE. No. The only thing I know is just what Mr. Stiehler told me that they deposited all the money in a bank account in Indiana. And then from there they started writing checks and cashed them in Costa Rica or wherever—even in Indiana. They sent some to Mr. Hull's account in Indiana and this, that and the other.

Mr. BLUM. So, the checks were written to cash.

Do you know if this was ever put into operating a business in Costa Rica?

Mr. CRONE. Yes. But the business did ship two loads.

Mr. BLUM. A total to two loads of wheelbarrow handles. Is that correct?

Mr. CRONE. Yes.

Mr. BLUM. Now, isn't it correct that one of those loads was defective?

Mr. CRONE. Yes. Maybe both loads. I'm not sure.

Mr. BLUM. And what happened to that defective load of wheelbarrow handles?

Mr. CRONE. I have no idea.

Mr. BLUM. Did you ever hear Mr. Stiehler say that it was to be reprocessed?

Mr. CRONE. Well, there was two other loads that he bought from somewhere else. I don't know which loads are which.

Mr. BLUM. I see. He bought wheelbarrow handles from another company completely?

Mr. CRONE. Yes.

Mr. BLUM. And he shipped them to the United States?

Mr. CRONE. Yes.

Mr. BLUM. And one of those loads, one of those four loads then had to be reprocessed. Is that correct?

Mr. CRONE. No. There was more than two loads that had to be reprocessed.

Mr. BLUM. I see.

Mr. CRONE. He had bought more than—maybe two or three from this other company and maybe two loads from Maderas Tropicales.

Mr. BLUM. And what was the problem with these handles?

Mr. CRONE. The holes were not drilled in the right places. They did not have the right quantity of varnish on them. Their dryness was not—they were not kilned right, as they testified.

Mr. BLUM. So, you never saw any of the proceeds of the $375,000. Is that correct?

Mr. CRONE. No, sir. That's not correct. I did receive $10,000 for lumber that my company Maderas Amoya sold to Maderas Tropicales. But we sold them more lumber. They only paid us $10,000. We had close to 15,000 or 20,000 dollars' worth of wood.

Mr. BLUM. So, you in effect sold 15,000 dollars' worth of wood to Maderas Tropicales for which you were paid $10,000. Is that correct?

Mr. CRONE. Yes.

Mr. BLUM. And otherwise you've received no money from Maderas Tropicales.

Mr. CRONE. No, none whatsoever. Not for any labor I've done or anything.

Mr. BLUM. And this is even though you appear on the loan documents as a one-third owner. Is that correct?

Mr. CRONE. I'm not sure what the loan documents say. I never did receive a copy of that either. But I was supposed to be a 15-percent owner.

Mr. BLUM. You were supposed to be a 15-percent owner. You've never seen the loan documents?

Mr. CRONE. No.

Mr. BLUM. Did you ever see the loan application materials?

Mr. CRONE. The only thing I did, I made up—they requested from me my financial statement and a letter of experience that I gave to Mr. Hull. At that time we were very good friends, and I had no reason to believe that he was going to do anything like this.

Mr. BLUM. And are you now surprised to find yourself personally liable on this loan?

Mr. CRONE. No. In the past 2 years I've been very nervous about this loan, about being liable.

Mr. BLUM. When did you first discover that you might potentially be liable on the loan?

Mr. CRONE. Well, approximately a year ago when this one farm that he sold that was supposed to be security, and then they were trying to get this other farm back in. So, I was more or less like OPIC. I was just setting here waiting to make sure we get these

two farms in so maybe OPIC would take these farms and be satisfied and not come back for recourse against me.

Mr. BLUM. Now, let me try to understand what you've just said. You're saying that there was a farm that was given as security. But then he sold that farm. And to sell the farm, he had to get rid of the mortgage that was on it. Is that what you're saying?

Mr. CRONE. No. He sold the farm because the mortgage had never been registered properly in Costa Rica.

Mr. BLUM. Oh, I see. In other words, OPIC had security on a farm, but the mortgage hadn't been registered.

Mr. CRONE. Right.

Mr. BLUM. But he sold that farm, and then he went to OPIC and said we'll get another farm placed in. Is that correct?

Mr. CRONE. Yes. He has two farms. And these two farms did not have the paperwork correct in his name or in his company name. So, it took more than a year's time to get this processed. And so, I was more or less like OPIC, just setting here waiting to see if he's going to get something back in here other than just jump in and say, "OK, no."

Mr. BLUM. Are those farms to your knowledge worth $375,000?

Mr. CRONE. If it's the two farms I think they are, no way.

Mr. BLUM. What do you think they're worth?

Mr. CRONE. Maybe $100,000.

Mr. BLUM. Is there timber on them that can be cut profitably?

Mr. CRONE. OK, one of them the timber has been cut off of. The other one, he was trying to get a permit to cut the timber off of it a year ago. And I told Diana Chavarria that he was trying to cut this timber off of this farm at this time--trying the same farm that he was going to put in as security. Without the timber, this farm has no value whatsoever.

Mr. BLUM. What do you think happened to the $375,000?

Mr. CRONE. I think half of it at least was just bad management. The other I don't know.

Mr. BLUM. But you never saw it.

Mr. CRONE. Pardon?

Mr. BLUM. You never saw it.

Mr. CRONE. No, I never saw it. I know they used part of it to pay the life insurance, part of it to pay the first payment. The rest of it—I have no idea whatsoever they done with it.

Mr. BLUM. Now, there was third partner in this; wasn't there? There was a Costa Rican who was to be a plant manager. Who was he?

Mr. CRONE. Yes. He was Alvaro Arroyo and which that was always been—me and him never could get along.

Mr. BLUM. Did he receive any of the proceeds of the loan? Did he receive any money?

Mr. CRONE. Yes. It's my understanding that John Hull would write a check on the Indiana bank account to a gentleman in Costa Rica, changing into colones, give the colones to Mr. Alvaro and Alvaro would—Arroyo would deposit it in his personal account, and then use that to buy things with for the company or buy whatever, operating capital, whatever.

Mr. BLUM. Is it clear that the money was not used for the assets of Maderas Tropicales, but went into his personal account and was

then used for general purposes? Are you reasonably certain that occurred?

Mr. CRONE. Please repeat that, please.

Mr. BLUM. Are you sure that that money went into his personal account?

Mr. CRONE. No, I'm not positive. It's just hearsay. But Maderas Tropicales never had an account of their own at this time either.

Mr. BLUM. Is there a possibility of a sawmill business making wheelbarrow handles being successful in Costa Rica?

Mr. CRONE. Yes. At that time there was a very good chance of it—of being a very good going business.

Mr. BLUM. But this business was not successful.

Mr. CRONE. No, because it was never set up. Never had the equipment—the money sat in the bank account in Indiana for 6 months—a lot of it—or maybe more when it should have all been invested the very same day that the proceeds.

Mr. BLUM. Did Mr. Hull ever say to you that he was earning interest on that money?

Mr. CRONE. Yes. He said he had it in a bank account earning 8 percent. And I said, "Well, you're dumb. You're paying 13 on the 8." [Laughter.]

Mr. BLUM. Now, were you aware that Mr. Hull was at the time active in aiding the Contras?

Mr. CRONE. Yes.

Mr. BLUM. Was he using his ranch at that time or his various properties to support Contra operations in northern Costa Rica?

Mr. CRONE. Well, I'm not saying exactly he used his ranches. But he was communicating very well with these people.

Mr. BLUM. Do you think any of this money went to help the Contras?

Mr. CRONE. No. I don't think any of this money really went to help the Contras. Anything that went to improve his own property. [Laughter.]

Senator KERRY [presiding]. When did you first meet Mr. Hull?

Mr. CRONE. In Costa Rica.

Senator KERRY. What year?

Mr. CRONE. In 1978.

Senator KERRY. And when did you—what were the circumstances of your meeting him?

Mr. CRONE. OK. In 1977 he had a partner, a Costa Rican partner, that had a big farm that got killed in an airplane. He was married to a American citizen. His wife did not want it all tied up in Costa Rican court.

Senator KERRY. Can you speak more clearly into—pull the microphone a little closer and just go a little slower there.

Mr. CRONE. So, my brother knowed this gentleman that knowed Mr. Hull. So, he went to Costa Rica, and he bought the interest in this farm for me and my brother—for myself and I.

So, therefore, the following year I went down to look at the farm, and I met Mr. Hull at that time. And I more or less—I liked the country because we had our sawmill business in Indiana. It was a up and going business, good and I was getting bored. So, I'd like something else to do. So, I decided to go to Costa Rica.

Senator KERRY. Did you go into business with Mr. Hull at that time?

Mr. CRONE. No. I had already—really I had went in business with him a year before that because my brother had bought that farm.

Senator KERRY. And when you went to Costa Rica to work—were you actually working the farm?

Mr. CRONE. Yes. I went to Costa Rica, and we went up to the farm and worked on the—well, the first time—the first several years I was only there 2 weeks at a time. But I did go to the farm and more or less worked; yes.

Senator KERRY. And you were working—is thisthe same farm you were working right through 1982-83 when the loan application was made?

Mr. CRONE. No. This was a different farm altogether. In 1979, in the following year, me and a gentleman from Indiana—we bought another farm together. And this farm was going to be in the loan application.

Senator KERRY. Now, in 1982 and 1983 when the loan application—when you made that and you decided to bring these—consolidate these three companies—farms, were you still close to John Hull at that time?

Mr. CRONE. Yes.

Senator KERRY. Did you—whose idea was it to put this combine together?

Mr. CRONE. Maybe the two of us, John Hull and I.

Senator KERRY. And what were the percentages that you decided to divide up?

Mr. CRONE. At that time—well, we never really talked about percentages, but I figured, well, we'd at least have, you know, one-third each.

Senator KERRY. Did you——

Mr. CRONE [continuing]. Arroyo because Mr. Arroyo had nothing really. He had no assets whatsoever.

Senator KERRY. Are the listings—you were listed as one of the partners in the application.

Mr. CRONE. Yes.

Senator KERRY. Did you help fill out any of those forms for that application?

Mr. CRONE. No, sir.

Senator KERRY. Did you provide any information that Mr. Hull used to show what your assets were?

Mr. CRONE. Yes. I did give him a financial statement and a letter of my experience. But I'm not positive whether that was for the second application or the first one, and they just used that in the second application.

Senator KERRY. They didn't use it in the first.

Mr. CRONE. Yes. They used it in the first, but it may be the same thing that they used in the second.

Senator KERRY. And was that accurate?

Mr. CRONE. Yes.

Senator KERRY. Now, during that period of time, did you visit Mr. Hull's farm a great deal?

Mr. CRONE. Yes. I'm not sure what time.

Senator KERRY. In 1983, 1984?

Mr. CRONE. Yes, but I mean in that time—in 1981 I lived on Mr. Hull's farm for 6 months. And then in 1982, 1983, somewhere along in there, he had an office in Ciudad Quesada with an extra room. So, I stayed there.

Senator KERRY. Did you visit his farm on through 1984?

Mr. CRONE. Yes.

Senator KERRY. Did you ever land at his airstrip?

Mr. CRONE. Yes, several times. I had my own plane. As a matter of fact, I kept my plane there several times.

Senator KERRY. So, you were well aware of the activities going on at the Hull airstrip. Correct?

Mr. CRONE. Yes.

Senator KERRY. It is no secret to you at all that supplies were coming in there and soldiers were flying in and out. Is that correct?

Mr. CRONE. No, there was no supplies or no soldiers coming into that airstrip.

Senator KERRY. You never saw any.

Mr. CRONE. Not to that airstrip of his; no.

Senator KERRY. Which airstrip?

Mr. CRONE. Which airstrip. There was another airstrip; yes.

Senator KERRY. Which one?

Mr. CRONE. Well, I would like to not say because it might implicate me.

Senator KERRY. Well, was it on your farm?

Mr. CRONE. Well, possibly. [Laughter.]

Mr. CRONE. I'm not sure it's my farm now because Mr. Hull is trying to take that away from me—my interest.

Senator KERRY. What year was this? Do you want to tell us what year this was?

Mr. CRONE. OK. This was before 1983. I beg your pardon. This was—let me check here. The last time I had any dealings about anything and that was in probably May or July 1983.

Senator KERRY. In 1983.

Mr. CRONE. Yes.

Senator KERRY. And at that time you knew very well of Mr. Hull's efforts to try to provide assistance to the Contras; didn't you?

Mr. CRONE. Yes, at that time, yes.

Senator KERRY. And you knew that weapons and explosives were among those things that were being transported for the Contras. Correct?

Mr. CRONE. Yes.

Senator KERRY. And those weapons and explosives were coming into the airstrips—yours. Correct?

Mr. CRONE. Well, no, it's not mine. It's the company's.

Senator KERRY. The company's.

Mr. CRONE. A company.

Senator KERRY. A company. What was the name of the company?

Mr. CRONE. La Conya.

Senator KERRY. La Conya. Now, who were the principles of the company, La Conya?

Mr. CRONE. OK. John Hull was a 30-percent owner.
Senator KERRY. John?
Mr. CRONE. And the manager.
Senator KERRY. Say that again. I couldn't hear you.
Mr. CRONE. John Hull was the——
Senator KERRY. Thirty-percent owner of the company.
Mr. CRONE. Thirty-percent owner of the company, and he was the manager of the company.
Senator KERRY. And you also know of weapons or explosives being stored at or near the sawmill that was owned by Mr. Hull. Correct?
Mr. CRONE. Yes.
Senator KERRY. So, the sawmill was, in fact, a location for supplies of those weapons for the Contras.
Mr. CRONE. No. You said "at or near." It was not at the sawmill.
Senator KERRY. Near the sawmill.
Mr. CRONE. Yes.
Senator KERRY. That's correct. I said "near."
Do you want to describe specifically where?
Mr. CRONE. Well, it was another farm close; yes.
Senator KERRY. Can you describe that farm?
Mr. CRONE. Well, it was in Life magazine at one time.
Senator KERRY. Well, do you want to be more specific since the rest of——
[Laughter.]
Senator KERRY. I missed that copy of Life.
Mr. CRONE. It was where Bruce Jones lived.
Senator KERRY. Where?
Mr. CRONE. Bruce Jones lived.
Senator KERRY. Bruce Jones lived, OK.
And now, did you in the course of that time also learn of individuals who were trafficking in narcotics?
Mr. CRONE. No. I was informed by some people from the Embassy to stay away from certain people, that they had been tagged as trafficking in narcotics.
Senator KERRY. Well, that's what I'm saying. You became aware of the fact that people were trafficking in narcotics. Correct?
Mr. CRONE. Yes, people that were trying to get into the movement.
Senator KERRY. That's correct.
And that there was talk at that time of narcotics flowing out of some of these airstrips. Correct?
Mr. CRONE. No, not at that time. There was no talk about that or anything.
Senator KERRY. At what time was there?
Mr. CRONE. That was later on.
Senator KERRY. OK, what time?
Mr. CRONE. Maybe in 1985.
Senator KERRY. But in 1985 you did learn of that. Correct?
Mr. CRONE. No. I just heard about it.
Senator KERRY. Do you want to tell us what you heard?
Mr. CRONE. Well, I just heard that they was wanting to investigate John Hull for because he might have implications of using this. And this airstrip is very possibly because it is very remote.

Senator KERRY. Where did you hear that?

Mr. CRONE. Just—well, just from Costa Rican people and different people. I'm not positive from where. I mean, just——

Senator KERRY. Did you hear it from multiple sources?

Mr. CRONE. Yes.

Senator KERRY. Were any of those people people you knew well?

Mr. CRONE. Yes.

Senator KERRY. Could you describe specifically to me some of those people?

Mr. CRONE. Well, some of those people were officials of the Costa Rican Government.

Senator KERRY. At what level?

Mr. CRONE. I couldn't say exactly. Well, more or less Congress level.

Senator KERRY. What level?

Mr. CRONE. Congress level possibly.

Senator KERRY. Congress level. Well, that's pretty low. I'll agree. [Laughter.]

Mr. CRONE. They only have a senate down there, so maybe at the senate level. [Laughter.]

Senator KERRY. We should get you in front of more committees here. [Laughter.]

Now, did you have any discussions with any members of the—equivalent of the DEA in Costa Rica itself?

Mr. CRONE. No, not exactly. I'm not sure. Not exactly the DEA. I had a good friend that supposedly he is a very good—maybe an agent of theirs or what have you or the local guard also. So, he more or less kept me informed also.

Senator KERRY. Now, how often did you wind up meeting with or working with Rob Owen?

Mr. CRONE. OK, Rob Owen? I only worked with him one time, the first time he came to Costa Rica.

Senator KERRY. When was that?

Mr. CRONE. That was in—well, it would have been approximately this time in July 1983. After that time, maybe September.

Senator KERRY. How did you happen to meet him?

Mr. CRONE. We met him here in this building in Senator—I don't remember——

Senator KERRY. Where was that?

Mr. CRONE. Pardon?

Senator KERRY. You met Rob Owen here in this building.

Mr. CRONE. Yes.

Senator KERRY. Do you recall where?

Mr. CRONE. In his office when he was working for the—he was an assistant or an aide.

Senator KERRY. OK. That was in 1983 when he was working for Senator Quayle.

Mr. CRONE. Yes, in July 1983, July 21, 1983.

Senator KERRY. How did that happen to come about?

Mr. CRONE. Well, I'm getting into more now here than I thought I was going to talk about——

[Laughter.]

Mr. CRONE [continuing]. Because I may have repercussions in Costa Rica, the thing is.

Really, I'll just go ahead. Me and one of the Contra commandants came to the United States in that time because we were very upset with Pastora. He was working more or less like a Communist. And we wanted to come to Washington and talk to people to inform them what was going on. And then we got here. And everybody was more or less in favor of Pastora, so we were afraid to speak up at that time.

Senator KERRY. And how did you happen to meet Rob Owen? You just met him there in the office?

Mr. CRONE. Yes. It just happened—I'm from Indiana, so we went to meet our Indiana representative.

Senator KERRY. Now, when was the next time you met Rob Owen?

Mr. CRONE. In Costa Rica. I picked him up at the airport in Costa Rica.

Senator KERRY. How did you know he was coming?

Mr. CRONE. I paid half his ticket.

Senator KERRY. Why?

Mr. CRONE. Well, he was wanting to get more information. He seemed like the only person here that was really interested in what was going on there. So, he came down to get more information about Pastora and what he was doing and everything.

Senator KERRY. Who was he working for at that time?

Mr. CRONE. He was still an aide I believe. I'm not sure. I don't know who he was working for.

Senator KERRY. Did you personally think that Pastora was a Communist?

Mr. CRONE. Do I have to answer that?

Senator KERRY. Yes, sure.

Mr. CRONE. Yes, I think possibly, yes.

Senator KERRY. Possibly.

Now, when Rob Owen returned to Costa Rica, did he come back as a member still of the Senator's staff?

Mr. CRONE. I have no idea. I have no idea when he was no longer a member.

Senator KERRY. But you paid for half his ticket.

Mr. CRONE. Yes, the first time he came.

Senator KERRY. Who contacted you to ask you to do that?

Mr. CRONE. Mr. Hull.

Senator KERRY. Mr. Hull asked you to pay for half of Rob Owen's ticket.

Mr. CRONE. Yes, and he paid for the other half.

Senator KERRY. And did he say why?

Mr. CRONE. Well, he thought we would get—I mean, he could learn something and maybe get something changed.

Senator KERRY. Did Rob Owen mention Oliver North's name at that time?

Mr. CRONE. I met Oliver North here in Washington at the same time I met Rob Owen.

Senator KERRY. At the same time Rob Owen was working in the Senate.

Mr. CRONE. Yes.

Senator KERRY. Where did you meet Oliver North?

Mr. CRONE. In his office.

Senator KERRY. At the White House at the West Wing?

Mr. CRONE. Well, whatever—it's not exactly in the White House. It was just in that building.

Senator KERRY. The building next door to the White House?

Mr. CRONE. Yes.

Senator KERRY. Now, who took you down there?

Mr. CRONE. I don't remember.

Senator KERRY. How did you come to meet Oliver North?

Mr. CRONE. I don't know. We met several people here, and somebody wanted us to talk to him.

Senator KERRY. Somebody here. Do you recall who it was?

Mr. CRONE. No.

Senator KERRY. You have no recollection who it was?

Mr. CRONE. No, not for sure. It could have been Rob himself, or it could have been someone else. We met with several people when we were here. We was only here 2 days and we met with several different people.

Senator KERRY. What was the subject of that meeting?

Mr. CRONE. The biggest subject reason was everyone was interested because this gentleman that was with me used to be a commandant of Pastora's. He had been a Sandinista also and defected. And so, everybody was wanting to talk to him.

Senator KERRY. Who was that?

Mr. CRONE. Luis Rigas.

Senator KERRY. Did you agree to do anything for Oliver North at that meeting?

Mr. CRONE. No.

Senator KERRY. When was the next time you—and so, you paid for Rob Owen's journey down to Costa Rica. You picked him up at the airport. And where did you take him?

Mr. CRONE. I took him to my apartment.

Senator KERRY. In San Jose or where?

Mr. CRONE. Yes, in San Jose.

Senator KERRY. And how long were you with Mr. Owen? The course of the next few days?

Mr. CRONE. Yes.

Senator KERRY. And what did you in the course of those days?

Mr. CRONE. I wasn't with him all the time, but some—part of the time we met with some of the rebel leaders at that time and everything.

Senator KERRY. Did you go up into the farms?

Mr. CRONE. I don't remember if we went up. I think maybe we did go to Mr. Hull's farm; yes.

Senator KERRY. What was the purpose of meeting with these leaders?

Mr. CRONE. He was wanting to get more information about Pastora to see if, you know, he really was a Communist or what have you, or why we were helping him and this, that, and the other.

Senator KERRY. Do you recall who you met with?

Mr. CRONE. I know we met with—we might have met with Pastora himself. I don't remember for sure. I think maybe possibly we did, and with Robello, and I'm not sure who else.

Senator KERRY. What other Contra commandantes did you meet with?

Mr. CRONE. That's—the only ones I know was Robello and Pastora and this Luis Rigas. We did meet with several that was nonmilitary also.

Senator KERRY. Did you meet with Rob Owen again after that in Costa Rica?

Mr. CRONE. I'm not positive. Possibly yes, possibly no. Right after that——

Senator KERRY. Well, wasn't he coordinating a certain amount of the flow of supplies that were coming through at that time?

Mr. CRONE. I don't know. I may have met with him one more time after that.

Senator KERRY. Well, you had planes coming in and out of your strip. Correct?

Mr. CRONE. No.

Senator KERRY. In 1983?

Mr. CRONE. No. There was no planes landing on our airstrip in 1983.

Senator KERRY. In 1984?

Mr. CRONE. In 1984 I'm not sure. I haven't been on that farm since then.

Senator KERRY. Well, you said earlier that there were supplies coming in at your strip.

Mr. CRONE. Yes, but I did not say the planes landed.

Senator KERRY. You didn't what?

Mr. CRONE. I didn't say any planes landed or anything there. [Laughter.]

I said supplies were coming in.

Senator KERRY. So, you picked them up after they dropped by parachute. Correct? They came in on a drop, and they used the field. Is that accurate?

Mr. CRONE. Yes.

Senator KERRY. And who coordinated that? Rob Owen?

Mr. CRONE. No, Rob Owen had nothing to do with that at that time. This was before I ever met Rob Owen.

Senator KERRY. Was anybody paying you at that point for what you were doing?

Mr. CRONE. No.

Senator KERRY. Was John Hull paying you?

Mr. CRONE. No.

Senator KERRY. For what period of time did that continue to your knowledge?

Mr. CRONE. It did not continue any more after May 1983.

Senator KERRY. And did you have any——

Mr. CRONE. That I was involved in.

Senator KERRY. I beg your pardon?

Mr. CRONE. That I was involved in.

Senator KERRY. Did you have any subsequent meetings with Rob Owen?

Mr. CRONE. No. After probably the second time he came to Costa Rica, from then on I did not have anything to——

Senator KERRY. Did you have any subsequent meetings with Oliver North?

Mr. CRONE. No. I only met him one time in his office. That was all.

Senator KERRY. Now, did you work with Felipe Vidal?
Mr. CRONE. Who?
Senator KERRY. Felipe Vidal.
Mr. CRONE. Felipe?
Senator KERRY. Vidal.
Mr. CRONE. Vidal. I'm not——
Senator KERRY. OK.
Mr. CRONE. I've heard of two or three Felipe's name, but I don't know what their last names.
Senator KERRY. How about Rene Corbo?
Mr. CRONE. Yes.
Senator KERRY. Did you work with him?
Mr. CRONE. I did not work with him. I know him.
Senator KERRY. What do you know of Rene Corbo?
Mr. CRONE. OK. I met him the first time in Florida.
Senator KERRY. When did you meet him in Florida?
Mr. CRONE. I'm not positive. I don't know when it was.
Senator KERRY. In what capacity did you meet him?
Mr. CRONE. Another gentlemen took us to a camp, a training camp, they had there.
Senator KERRY. In Florida.
Mr. CRONE. Yes.
Senator KERRY. What year was this?
Mr. CRONE. Pardon?
Senator KERRY. What year?
Mr. CRONE. I have no idea.
Senator KERRY. What kind of training camp?
Mr. CRONE. They were just training just more or less like an army training camp.
Senator KERRY. And who was training?
Mr. CRONE. Just—I don't know. Just several individuals. Maybe 20 or 30 people there.
Senator KERRY. Where was this? Near Miami?
Mr. CRONE. Yes.
Senator KERRY. Do you remember where specifically?
Mr. CRONE. I know it's on Alligator Alley somewhere.
Senator KERRY. What?
Mr. CRONE. On Alligator Alley somewhere.
Senator KERRY. And how did you happen to come to be there?
Mr. CRONE. This other gentleman came down, and they was wanting to bring the people into Costa Rica with their arms and everything. So, since I knowed a lot of Costa Rican airstrips, he was wanting me to tell him where to land.
Senator KERRY. Which fellow was that?
Mr. CRONE. Which fellow? I don't remember his name right now. He runs a travel service in Miami.
Senator KERRY. How about Horacio Pereira?
Mr. CRONE. Pardon?
Senator KERRY. Horacio Pereira.
Mr. CRONE. No, that doesn't ring a bell. It could be he's using another name or something.
Senator KERRY. Huachan Gonzalez?
Mr. CRONE. No.
Senator KERRY. Did you ever do anything with Moises Nunez?

Mr. CRONE. No.

Senator KERRY. Now, were the people who were training at this place in Florida—were they Contras or were they Americans?

Mr. CRONE. No, they was Americans.

Senator KERRY. They were Americans.

Mr. CRONE. Well——

Senator KERRY. What?

Mr. CRONE. I don't know who they were exactly.

Senator KERRY. Did they speak English?

Mr. CRONE. Yes, some of them spoke English. Some of them spoke Spanish.

Senator KERRY. Were they caucasian?

Mr. CRONE. They was a little bit of mix of everything.

Senator KERRY. What were you doing there?

Mr. CRONE. This gentleman from the travel agency just wanted to show me their camp, see what they was doing. And he was wanting to send his people down to help train the people down there.

Senator KERRY. Who was this gentleman?

Mr. CRONE. I don't know his—he was a—had a travel agency in Miami. I don't remember his name.

Senator KERRY. How did you happen to come to him?

Mr. CRONE. He found me.

Senator KERRY. Where did he find you?

Mr. CRONE. In Costa Rica.

Senator KERRY. And you don't remember his name. He found you in Costa Rica. You went to his travel agency. You spent a day with him and you have no recollection of his name?

Mr. CRONE. No, not right offhand.

Senator KERRY. Do you remember his place of business?

Mr. CRONE. No. It was in northern Miami somewhere—northern Miami or——

Senator KERRY. How did you get there?

Mr. CRONE. In his vehicle.

Senator KERRY. He picked you up at the airport?

Mr. CRONE. No. He picked me up at a bar.

Senator KERRY. How did you know where to meet him?

Mr. CRONE. He told me where to meet him when he was in Costa Rica.

Senator KERRY. And you knew what he looked like when you went into the bar?

Mr. CRONE. Pardon?

Senator KERRY. You knew what he looked like?

Mr. CRONE. Yes.

Senator KERRY. What did you say? Hello, blank, or hi, Don, or hi, Don, or hi, Jim? I mean, you must remember his name.

Mr. CRONE. No, no, not really.

Senator KERRY. Not really or?

Mr. CRONE. No, because a lot of those people they used to not use their own names or anything.

Senator KERRY. Well, what was the name that he gave you?

Mr. CRONE. I don't remember any name that he gave me.

Senator KERRY. No recollection of his name.

Mr. CRONE. Not exactly. It seemed to me like it was a Cuban name. It could have been possibly a Cuban name.

Senator KERRY. How many times have you seen him?

Mr. CRONE. Possibly—I seen him once in Costa Rica, once in Miami, and I think that was all.

Senator KERRY. But he found you in Costa Rica.

Mr. CRONE. Yes.

Senator KERRY. Brought you up. Did he pay for your trip?

Mr. CRONE. No.

Senator KERRY. You paid for it yourself.

Mr. CRONE. No. It just happened I was coming to the States on business at that time anyway.

Senator KERRY. What did you do after you had been out to see this place where people were training?

Mr. CRONE. Then I went on to Tampa.

Senator KERRY. Without him.

Mr. CRONE. Yes, without them.

Senator KERRY. And what did you do in Tampa?

Mr. CRONE. I had—one of the business partners—I mean, one of the partners of one of Costa Rican farms was there.

Senator KERRY. Now, with respect to the loan and John Hull, have you taken any recourse with respect to your current position?

Mr. CRONE. No, because I was waiting all along to see if they got these farms back in to have protection more.

Senator KERRY. Just 1 minute.

[Pause.]

Senator KERRY. Mr. Crone, let me just go back on this a little bit. The reason I'm asking these questions—I know that this is outside of what you expected to talk today. But on the other hand, it is very much a part of what this committee is involved in right now and has been working on for some period of time. So, it does dovetail into other matters of concern.

Let me just ask you. And I appreciate your candor, and you have been very forthcoming. And I want to just pursue this a little further.

When you went to this so-called military training camp in Miami—I want to be more precise. This was in 1983?

Mr. CRONE. Pardon?

Senator KERRY. This was in 1983?

Mr. CRONE. I'm not positive. It was before July 1983; yes. And I'm not sure it was in 1982 or 1983.

Senator KERRY. Somewhere in that vicinity.

Mr. CRONE. Yes.

Senator KERRY. And you saw maybe 30 people in military training. Correct?

Mr. CRONE. Yes.

Senator KERRY. Now, at that time that person was arranging and trying to arrange for the delivery of weapons down to Costa Rica. Isn't that correct?

Mr. CRONE. No. He was trying to arrange the delivery of his troops—I mean, these people that were training there in order to help train the Contras down there.

Senator KERRY. But they were training with weapons. Right? They carried weapons?

Mr. CRONE. Yes.

Senator KERRY. And they were bringing weapons into the country in order to supply. They were dropping those weapons at the airstrips. Correct?

Mr. CRONE. I have no idea who dropped those weapons.

Senator KERRY. You don't know who dropped them, but you know they were being dropped.

Mr. CRONE. Yes.

Senator KERRY. Wasn't there a discussion at this Miami location about further transfer of supplies down to your area in northern Costa Rica?

Mr. CRONE. Yes, there was. Well, they wanted to get these troops in there.

Senator KERRY. That's precisely what you were discussing while you were there. Isn't that correct?

Mr. CRONE. Yes. They had a DC-3 they was wanting to get into Costa Rica without knowledge of the local people.

Senator KERRY. Without knowledge of local authorities in Florida.

Mr. CRONE. No. Local authorities in Costa Rica.

Senator KERRY. Do you know whether or not local authorities in Florida knew of this?

Mr. CRONE. I have no idea but it was very close to a highway.

Senator KERRY. Do you know who ran this training camp?

Mr. CRONE. No.

Senator KERRY. You have no idea?

Mr. CRONE. No.

Senator KERRY. Did you meet a person by the name of Rene Corbo there?

Mr. CRONE. Yes.

Senator KERRY. He was there?

Mr. CRONE. Yes.

Senator KERRY. OK. And wasn't Rene Corbo the person who was in fact in charge there?

Mr. CRONE. It seemed like there were two or three in charge there. He was acting like he was one of them in charge.

Senator KERRY. Rene Corbo was certainly one of those who was in charge.

Mr. CRONE. Yes.

Senator KERRY. And you had discussions with Rene Corbo there. Correct?

Mr. CRONE. Yes. We had lunch their in our messhall.

Senator KERRY. And at lunch you talked about getting supplies into Costa Rica. Correct?

Mr. CRONE. No, not really. We never did actually talk about there in that camp or anything, about bringing supplies. He just showed me what they were training, this, that, and the other.

Senator KERRY. But you talked specifically about the DC-3 that they had.

Mr. CRONE. Yes, but not there at that camp. That was later with the gentleman at the travel service.

Senator KERRY. And you talked about that back in Miami?

Mr. CRONE. No. We talked about this before we even got to the camp. Maybe even——

Senator KERRY. So, the discussion about getting the supplies took place before you even got to the camp.

Mr. CRONE. Yes.

Senator KERRY. The camp, however, was part of their network of what was providing the supplies. Is that correct?

Mr. CRONE. Yes.

Senator KERRY. OK. And the discussion about the dropping of the supplies took place in Miami in the morning. Correct?

Mr. CRONE. No. This was supposed to be a direct—they were going to land in Costa Rica. They were not going to drop.

Senator KERRY. Excuse me?

Mr. CRONE. This was supposed to be a landing.

Senator KERRY. A landing. All right. Did they discuss specifically where they would land?

Mr. CRONE. No. They discussed several possibilities.

Senator KERRY. And your farm was one of the possibilities.

Mr. CRONE. Yes.

Senator KERRY. And another one was John Hull's?

Mr. CRONE. No.

Senator KERRY. What was the other one?

Mr. CRONE. My farm and John Hull's farm was the same one at that time, the one I'm referring to there.

Senator KERRY. OK. That's the one in which he had the 30-percent ownership under Laconia.

Mr. CRONE. Yes.

Senator KERRY. All right. What other locations did you discuss for the landing?

Mr. CRONE. There were distant locations. Quanticosti and over toward Limon. Really the whole Costa Rica.

Senator KERRY. Was there discussion about landing at Monaco?

Mr. CRONE. Yes. But as far as I know, this airplane never did come in to land there. I mean, it didn't even land in Costa Rica. After that I was told to stay away from these people, so I don't know anything more about it.

Senator KERRY. Who told you to stay away from these people?

Mr. CRONE. Someone was coordinating some of the supply drops.

Senator KERRY. Who was that?

Mr. CRONE. I don't know. They called him Thomas.

Senator KERRY. In Costa Rica?

Mr. CRONE. Yes.

Senator KERRY. He was in Costa Rica?

Mr. CRONE. Yes.

Senator KERRY. Was he an operative of the Embassy?

Mr. CRONE. I have no idea.

Senator KERRY. Was he American?

Mr. CRONE. Yes.

Senator KERRY. Did you have many dealings with this Thomas?

Mr. CRONE. No, not many dealings. Mainly I had my own airplane there and I'd just fly people around.

Senator KERRY. Was he someone that you flew around?

Mr. CRONE. No. I don't remember ever flying him; no.

Senator KERRY. Let me at this point, Mr. Crone—where are you currently residing?

Mr. CRONE. In Costa Rica.

Senator KERRY. And how did you happen to be here in this moment in time?

Mr. CRONE. It was just an accident. Well really, I was talking to Ms. Diana Chavarria's brother about 2 weeks ago and he informed me that OPIC was going to take these two farms of John Hull's. So, I came here to talk to OPIC to see if they were going to be satisfied with just those two farms or if they were going to come for repercussion against me also since I was the cosigner.

Senator KERRY. Mr. Crone, what I need to do at this point because of the timeframe and we still have a couple of people here for the OPIC piece, you've been very kind to make yourself available and I appreciate it enormously. I would like the hearing to continue with counsel this afternoon. If you could just make yourself available to him because I wanted to ask a few more questions. And I do want to pursue a couple of more aspects of the OPIC information that was available or not available at the early stages, if we could.

So, if you could, once we end the hearing, meet with Mr. Blum to arrange a time for this afternoon and we can continue that, I'd appreciate it. And I thank you very much for your willingness to come forward on this. I think it's been helpful.

I know you're anxious to cover your liabilities here, and I don't blame you. I hope there's going to be a way to see that happen in the long run.

Mr. CRONE. OK, yes. But this last question may be more hard to cover my liabilities than the first because I may be subject to some harassment now for this.

Senator KERRY. Harassment for what?

Mr. CRONE. From Mr. Hull in Costa Rica for the information I have given you.

Senator KERRY. For which information?

Mr. CRONE. On the airdrops and everything.

Senator KERRY. Well, if you have any reason to fear that somehow you may be subject to any harassment, as you know we will be more than pleased to try to make available the good auspices of the Embassy and others down there, not to mention Costa Rican authorities, to provide adequate notice to Mr. Hull that that is a felony, not to mention—it's a felony in this country because you're a witness before this committee. And if you undergo any harassment because of that, that will only further our interest in Mr. Hull.

But second, I think that the Costa Rican law also obviously provides adequate protection for that. It just so happens that I'm leaving later this evening for Costa Rica and will be there tomorrow and Sunday. And I'd be delighted to make sure that the Embassy people and others I talk to are aware of this and put on notice about it. And I will do that.

Mr. CRONE. The Embassy people there in Costa Rica, they are protecting Mr. Hull also.

Senator KERRY. They're all protecting Mr. Hull? It's interesting. The Embassy people in Costa Rica have a particular interest in Mr. Hull getting the loan from OPIC?

Mr. CRONE. Not to my knowledge.

Senator KERRY. What do you mean by "they're protecting Mr. Hull"?

Mr. CRONE. Well, the Costa Rican security guards, not the American Marines but the Costa Rican security guards have been told to kind of protect him. I mean——

Senator KERRY. Who has put out that word? Do you know?

Mr. CRONE. No. I have no idea.

Senator KERRY. How do you know that?

Mr. CRONE. Well, if I could tell you in private it would be better.

Senator KERRY. Well, I'd be delighted to talk to you privately. This afternoon's discussions incidentally will be private between you and counsel. And I'll try to take part in some of that. Why don't we just recess your portion of the testimony at this point and we will talk further on this, I assure you, afterward. OK?

Mr. CRONE. OK.

Senator KERRY. All right. Thanks very much.

If we could just have the other witnesses. Could Mr. Siple and Mrs. Hood come forward? Are they still here?

Mrs. Hood, if you want to move a little closer, that would be fine. Could you identify yourself, Mr. Siple?

STATEMENT OF DOUGLAS SIPLE, MIAMI, FL, AND LOUELLA HOOD, BRADENTON, FL

Mr. SIPLE. Yes, sir. My name is Douglas Siple. I'm a Canadian.

Senator KERRY. OK. And Mrs. Hood, would you just identify yourself for the record?

Mrs. HOOD. Yes. My name is Louella Hood. My husband is John Hood who owns Hacienda Amigos. I am the secretary.

Senator KERRY. OK. If you would both raise your right hands please.

[Witnesses sworn.]

Senator KERRY. I'll let counsel begin the questioning.

Mr. BLUM. Mr. Siple, how did you first come to know that your ranch was being described as John Hull's ranch?

Mr. SIPLE. By seeing a program on television in Miami in I believe it was late February 1986.

Mr. BLUM. You were in Miami and you turned on the television and there was a program about John Hull's ranch?

Mr. SIPLE. That's right.

Mr. BLUM. And you said, "My God, that's my ranch"?

Mr. SIPLE. Well, reasonably that it is; yes.

Mr. BLUM. Now, how did you become involved in investing in land in Costa Rica?

Mr. SIPLE. Well, I realize you're running late and I don't want to take up a lot of your time. But I think I should explain that I sort of inherited Mr. Hull from a very good and very old friend. It was a Mr. Hunter Moody from Decatur, IL, who I had known for 35 years and we had done a great deal of business together. We imported from Canada large numbers of airplanes over the years and he had disposed of them in the States. And it had been a very good relationship and a lucrative one.

So, in December 1972 Moody and his wife and my wife and I went in Moody's airplane to Costa Rica on a vacation. And we met

Mr. John Hull who had worked for Mr. Moody in the RAF Ferry Command in Montreal during the war as a ferry pilot. Mr. Moody was the civilian superintendent of the ferry command and Hull was one of many Americans who flew in that ferry command. That was my meeting with Mr. Hull.

Mr. BLUM. And you then invested sometime after that in——

Mr. SIPLE. During that month that we were there.

Mr. BLUM. You invested during that month. How much money did you put up?

Mr. SIPLE. Initially about $15,000 each, Moody and I.

Mr. BLUM. You each put up $15,000. Did Mr. Hull put up any money?

Mr. SIPLE. Well, I think I should explain that one a little so that I won't appear completely stupid in business. When the $15,000 was called for I suggested to Moody that we get a lawyer and put our moneys into escrow, and then when Mr. Hull completed the deal the moneys would be turned over. And Moody was most adamant that Hull was an old friend and didn't need that kind of protection, so we gave the $30,000 to Mr. Hull.

And if I could go on to say that during the 2 or 3 months that it took to finalize the deal and we were back in Costa Rica, Mr. Hull informed us that he had some good news and he had some bad news. The good news was that the transaction was now complete, and the bad news was that it wasn't 900 acres we got. The other 300 acres across the river he was unable to buy. And in essence what that meant was that our money had bought the whole package and Mr. Hull became one-third owner of Canio Siego S.A. for nothing.

Mr. BLUM. Now, he then continued to manage Canio Siego S.A. Is that correct?

Mr. SIPLE. Yes, with his land management company, the San Carlos Land Management Co.

Mr. BLUM. Did you ever see a return on the investment that you and Mr. Moody made?

Mr. SIPLE. Not a nickel.

Mr. BLUM. And what did he tell you the problems were? And did he ask you how much money or ask you to put up more money?

Mr. SIPLE. Oh, yes. We did put up some more money through the years, up until about 1981, and that was where we terminated it. His excuse for not making any money was well, the first year we inherited 99 head of cattle on the one farm. So, Mr. Hull elected to cull the cattle and bring in new young stock from one of his own farms, of course. And he pointed out to us that he would quickly catch up his share of the investment by this sort of routine.

And then the next year it rained too much and the year after that it didn't rain enough and the next year he had squatter problems and then the Contras came. So——

Mr. BLUM. There was never a return on the investment.

Mr. SIPLE. No.

Mr. BLUM. You furnished the committee with a number of letters. And I would ask, Mr. Chairman, that they be made part of the record at this point.

Senator KERRY. So ordered.

[The letters referred to appear in the appendix.]

Mr. BLUM. When did you finally reach a point of deciding that Mr. Hull was not going to pay you back for any of the investment or give you any return on the investment?

Mr. SIPLE. I decided that in about 1981 when I quit putting any more money in there.

Mr. BLUM. You just refused to make any more contributions when he asked you for more money.

Mr. SIPLE. I told him, "Not another dime."

Mr. BLUM. Did there come a time when you tried to get out of this investment?

Mr. SIPLE. Well, not really. When Mr. Moody died in early 1986 we had an agreement signed in 1974 by Hull, Moody, and myself, where we agreed to buy out the shares of any partner who passed away. And it was at that point that I called Hull and asked him what he wanted to do about this agreement and about Moody's shares.

Mr. BLUM. And what did he say? What happened?

Mr. SIPLE. He said he had a man there in Costa Rica that was ready to buy the shares.

Mr. BLUM. Did he in fact buy them?

Mr. SIPLE. I beg your pardon?

Mr. BLUM. Did he in fact buy those shares?

Mr. SIPLE. Yes.

Mr. BLUM. Did he ever tell you that this facility was being used to support Contra operations?

Mr. SIPLE. No.

Mr. BLUM. Your first awareness of any of this then was the television program in Miami. Is that correct?

Mr. SIPLE. That's right.

Mr. BLUM. I'd like to now turn to you, Mrs. Hood, and ask you how it came to pass that you met John Hull.

Mrs. HOOD. First of all, our son, our late son went to Costa Rica. We had a mutual friend who is a doctor in western Florida who had been in Costa Rica and served there in the hospital 5 months teaching something about ophthalmology to the doctors there.

He became very interested in Costa Rica. He was a friend of John Hull because the man who works for him and manages his cattle ranch in Manatee County was a war buddy of John Hull. So, it was more or less a natural thing for Dr. King to meet John Hull and for John Hull to put together a piece of land to sell to Dr. King and to about I think maybe 17 other doctors. I really can't be sure of the number.

The doctors—there came a point during their ownership when they found that they wanted to sell. So, they approached my husband. They knew that we had a son in Costa Rica who wanted to live there. And so we thought that it would be a good thing to do. So, we went down, and that was I think the first time we'd ever met John Hull.

Senator KERRY. Mrs. Hood, can I just interrupt you for 1 minute. I apologize profusely but the hearing, as a result of some information we came across, took much longer than I anticipated.

Now I, unfortunately, have to be somewhere else. What we're going to do is this. Counsel is going to continue to ask these questions, which are very important to the record. I wanted to just in-

terrupt to thank you both for taking the time to come here. I know you both feel a little bit like you've been led down the path and taken to the cleaners and whatever. And I can assure you that we're very interested in trying to see what can be done, how something can be rectified, and how if there is anyway for people to be made whole, that there is some manageable way to do that.

But I just wanted to thank you on behalf of the committee and the process for taking the time to come in. We are very appreciative to you. And if you would be patient enough to continue with counsel, that would serve our efforts here very, very well. And I thank you very, very much.

Mrs. HOOD. May I just say one thing to you, sir?

Senator KERRY. Yes, indeed.

Mrs. HOOD. I appreciate being here. And if there is anything that my husband or I can do to perhaps make clear the situation between our two countries, we'd like to do it because our personal losses and so forth we have set aside as you do sometimes in business. But nevertheless, I'm here today because perhaps we can help someone else.

Senator KERRY. Well, I very much appreciate that. Thank you very, very much.

So, the hearing will continue with counsel until such time. And the record will remain open, as I stated earlier, for the further submission of questions in writing and for further testimony. Thank you.

Mr. BLUM [presiding]. Mrs. Hood, your son managed the farm that you purchased for a period of time. Is that correct?

Mrs. HOOD. Yes.

Mr. BLUM. And is it also correct that he was a pilot?

Mrs. HOOD. Yes, it is.

Mr. BLUM. And that he worked as a contract pilot for the Drug Enforcement Administration?

Mrs. HOOD. That's true. He was, they told us, an agent under contract.

Mr. BLUM. An agent under contract for Drug Enforcement. And I think the record should show that we talked to the DEA and they said he had a very distinguished flying record and a very distinguished record with them.

He died, as I understand it, in a plane crash in Costa Rica. Is that correct?

Mrs. HOOD. That's correct, on March 4, 1982.

Mr. BLUM. And after he died, who took over the management of the farm?

Mrs. HOOD. My husband and I went down there 2 weeks after our son died. And because of the friendship between Dr. King and John Hull, and also Everett Jordan—and I might add that both Everett Jordan and Dr. King do own a small portion of the farm, Everett 5 percent and Dr. King 10.

So, it was, my husband feels, a lack by not knowing the Spanish language and the Spanish customs. And so feeling that Mr. Everett Jordan was part of the situation, he went ahead and hired him without looking for further credentials or checking into it.

Mr. BLUM. So, Mr. Hull became the manager of the farm.

Mrs. HOOD. He was what they call in Costa Rica an administrator. And I might be able to help you some and tell you what Costa Ricans expect and also the powers they give to administrators there if you give them the legal power.

Mr. BLUM. So, they have tremendous power over the farm.

Mrs. HOOD. They do if you give it to them. If you, through your attorney, arrange to make them administrator and they draw up the papers and have them registered in the public registry, they then are able to do by law as I understand it, they can sell and mortgage lands. Now, this you might follow through. But in our case my husband did not do this. He gave a limited power.

However, I learned just this last year that it really had never been registered. Evidently, the attorney did not do it. We have a different attorney now.

Mr. BLUM. So, apparently OPIC is not the only organization that's had difficulty with Costa Rican counsel.

Mrs. HOOD. I have sympathy for OPIC. I can understand completely what their problems would be.

Mr. BLUM. Now, what happened on your farm when you turned it over to Hull to manage?

Mrs. HOOD. I think you'll find in all these letters that the witnesses have that there is a pattern this man followed. He always asked for money as soon as possible. Extra money. And then if he didn't get it he came up with stories of—really with a lot of contrast and looking for your sympathy and this sort of thing.

Then he would in addition write letters saying, this is what you said you were going to do, whether it was true or not. He did. We have such a letter. My husband agreed to the amount of $500 per month to manage the farm. Actually, the farm should have been self-sustaining. But nevertheless, he did that. John Hull wanted $1,000 a month instead of $500.

And he kept asking for money. My husband did send quite a bit. I can't really tell you the amount because I don't have that at my fingertips. But nevertheless, this was the pattern. He worked for us not much longer than a year. I can't tell you exactly how many months. But nevertheless, he began to tell us stories about how no one would buy our farm because there were bodies floating in the river because of the Contra war, and it was just so bad down there nobody would be interested in buying our farm.

So, would my husband please rent it or lease it to his bookkeeper, who was also the bookkeeper at that time for our Hacienda Amigos. My husband, as he usually does, said "Well, if you want to present whatever offer you have or offers, please put it in a letter and I will consider it." And I was there when he said it.

We also sent a letter to John Hull stating what we had said on the telephone. Put it in writing, we will consider it. After that I really don't remember exactly how we became a bit alarmed about it. But at any rate, I had met a Dr. Zaglu at the University of Florida while my husband and I were there one time. And he at that time had gone from the university and become the director of the Institute of Technology in Costa Rica.

He dealt somewhat with farmlands. He spoke good English. So, I called Dr. Zaglu and I told him we had a bit of a problem and was there anyway he could help us find out what it was. He did. He

went to our farm. He came back—rather, he called me back and he said, "Mrs. Hood, you better get down here quickly. I went to your farm and they tell me the cows have all been sold. They tell me that the farm has been sold."

So, my husband said, "Well this cannot be because he did not have the legal right to sell our farm or our cows." So, it can't be.

Mr. BLUM. So, you're saying that the cows were sold.

Mrs. HOOD. They really weren't sold, but this was what the story was when Dr. Zaglu went down to check on our farm. He looked all over the farm and checked it, and they told him no, the farm had been sold and the cows had all been sold, which was not true.

Mr. BLUM. So, the cows were not there and——

Mrs. HOOD. No, they were there.

Mr. BLUM. They were.

Mrs. HOOD. But they just told him they had been sold. OK?

Mr. BLUM. Oh, I see.

Mrs. HOOD. They were there. So, we immediately went down and— oh. In the meantime, I failed to tell you, John Hull decided that he didn't want to fool around with our farm anymore, I guess. He wasn't getting the money anymore. That's supposition. I shouldn't have said that.

But at any rate, he said that he quit us. He quit as administrator. And he said, "I have a war to fight and I don't have time to do your farm, but I'm sending Vegilia. Vegilia was the bookkeeper.

So, for a small period of time, she went down to look after the farm for us. There were cattle deals which are questionable even now, which I don't think you want to hear about. But nevertheless, there were many little worrisome details. And as far as records were concerned, we did not get the kind of records that you would expect or get in the United States in a business.

So, then my husband hired a new administrator at that point. So, then we took, things went better from then on.

Mr. BLUM. Would it be fair to say that you felt that you had been cheated by John Hull?

Mrs. HOOD. Yes. There's no doubt about that. And I also will say that the largest part probably of our loss came from before we bought the farm. And I'm sure the doctors in good faith thought they sold us the amount of land that we thought we bought.

It looks as though now with our most recent survey that possibly we might be left to maybe 2,000 acres less than what we bought. So, he is the one who put the farms together. And we found out the reason. The reason I have for saying this is because when John Hull first put the farm together for the doctors, I think there were five farms originally. And he put them all together.

But in one area there were three farms, and one was superimposed upon the other. One survey was superimposed on the other. That particular half, which is on one side of the river, was never registered although a survey had been made by the doctors and paid for. The other side was surveyed and registered.

We have since that time paid taxes on land we didn't own. That's part of our loss. We'll never regain any of that. But at least we found it out. We have an excellent attorney now.

Mr. BLUM. It's now working correctly.

Mrs. HOOD. It's what?

Mr. BLUM. It's now being properly managed.

Mrs. HOOD. Yes. It is being properly managed.

Mr. BLUM. I'd like to go back to you, Mr. Siple. In the records you furnished us there were collective letters to perhaps 15 or more landowners in Costa Rica. I recall one that said, times are terrible here. Were there other landowners in your situation who were not receiving returns? Is that your understanding?

Mr. SIPLE. Yes. There were quite a number of them. I met some of them down there in those days. I met Dr. King that Mrs. Hood is speaking of along with many other people who were in the same position with Mr. Hull managing their farms.

There was one particular man who I just refreshed on his name this morning, a Mr. Talbott. He finally took Mr. Hull to court and I believe that he won his lawsuit in Costa Rica. But I understand from information I just received today that even though he won the lawsuit, he never did get any money out of him.

Mr. BLUM. He wasn't able to collect anything on it.

Mr. SIPLE. That's right.

Mr. BLUM. Was the story with the other investors to your knowledge roughly the same? That is, they would keep putting money up, get no return?

Mr. SIPLE. He always had to have more money right away.

Mr. BLUM. And was the cattle that was supposed to be on the property in fact on the property, or was the cattle that was supposed to be yours not there? What did he do with respect to cattle on these farms?

Mr. SIPLE. Well, as I mentioned earlier, when we bought the one farm it had 99 head on it. And they were culled out and new young stock put in. Then in a matter of a year or 2 we had 222 head I believe it was. So, at that point we hired or we bought three new bulls and sent up there, and there were already two there.

But our head count in the next 10 years never did get over 222 head at any time.

Mr. BLUM. Even with the extra bulls on the property.

Mr. SIPLE. Even with the extra bulls.

Mr. BLUM. Then you had difficulty with the cattle as well, Mrs. Hood. Isn't that correct?

Mrs. HOOD. Yes.

Mr. BLUM. What was this, cattle that was sold to you by Mr. Hull or cattle that he bought from you? What were the problems?

Mrs. HOOD. Well, as I recall—my husband can give you more facts about this. But as I recall, he bought, he was given money to buy some new bulls. And there was some sort of an exchange of animals. The ones we bought from his farm. And my husband felt that the animals were not right for the amount of money that he gave. That's the bottomline.

Mr. BLUM. I would guess that both of you would agree that trying to manage a farm long distance in Costa Rica based on your experience now is very difficult. Would that be fair?

Mr. SIPLE. That would be fair. Yes.

Mrs. HOOD. May I tell you something?

Mr. BLUM. Yes, Mrs. Hood.

Mrs. HOOD. I just wanted to tell you a story. We are acquainted with a man from the Embassy there, the United States Embassy in

Costa Rica. And he's from Holland. And we were telling him a little bit about our problem. And he said "Well, that's the way of it."

He said, when I first came, he said, "I didn't think I could deal with the Costa Ricans, so I dealt with members of my own country." And he said, "It took three times, I was bilked three times before I realized that perhaps I could do all right with the Costa Rican people." I thought that was rather interesting.

Mr. BLUM. So, your experience has been that you've had more success dealing with the Costa Ricans than with your own countrymen as managers down there. Is that right?

Mrs. HOOD. Well, the one that we dealt with; yes. That was not——

Mr. BLUM. Your own experience being Mr. Hull.

Mrs. HOOD. That's true.

Mr. BLUM. Now, Mr. Hull was a rather prolific letter writer. Is that a fair way to summarize it?

Mr. SIPLE. Yes. He grinds them out pretty religiously.

Mr. BLUM. And all of this would be telling you freshly how there were either bodies floating in the river or there were no cattle on the ranch or the timber had been cut?

Mr. SIPLE. Some of them would.

Mr. BLUM. Did any of these letters talk about squatters?

Mr. SIPLE. Oh, yes. Oh, yes. That was a big issue for about a year.

Mr. BLUM. What did he tell you about squatters?

Mr. SIPLE. Oh, they were just moving in on the farms all over the place and it took two or three men on the go all the time to keep running them out.

Mr. BLUM. And he of course wanted you to pay for the two or three men?

Mr. SIPLE. Oh, yes. That was a very expensive operation, running the squatters off.

Mr. BLUM. And did you hear about squatters, Mrs. Hood?

Mrs. HOOD. Yes. Of course, you hear about squatters. But in our particular case, the squatters were supposed to have come onto the property after we got it, possibly after the doctors bought it also. But in reality—and this came out just recently in February when we had our new survey made—there were two families who actually lived on it and owned the land when John Hull sold it to the doctors.

Mr. BLUM. In other words, he sold land he didn't own.

Well, at this point I have no further questions. I'd like to thank you both for coming. And we will stand in recess until 2:20, at which time we'll resume in closed session.

[Whereupon, at 1:45 p.m., the subcommittee hearing recessed, to reconvene in closed session at 2:20 p.m., October 30, 1987.]

APPENDIX

PREPARED STATEMENT OF THE OVERSEAS PRIVATE INVESTMENT CORPORATION

I appreciate the opportunity to appear before you to answer your questions with regard to OPIC's loan of $375,000 to Maderas Tropicales San Carlos, S.A., a woodworking project in Costa Rica. We understand that the Committee is also interested in OPIC's role with respect to the proposed oil pipeline across Iraq and Jordan to the Port of Aqaba.

As requested by the Committee's staff, my testimony this morning addresses the question of whether there are any parallels between the Maderas project and the Aqaba Pipeline matter, specifically, whether OPIC's actions regarding these projects were influenced by other U.S. Government agencies. Accompanying me this morning are a number of the OPIC officials who worked on the Maderas and Aqaba projects. They are available to answer any specific questions the Committee may have with regard to these two projects.

Let me state at the outset that, with regard to the Maderas project, OPIC received absolutely no requests or pressure from any U.S. Government agencies, including the National Security Council. OPIC's only contact with other agencies was in connection with routine consultations with the Departments of Commerce and State that are required for every OPIC project. We provided the Committee with our complete file with respect to the project, and it is unequivocably clear from our records and internal correspondence that OPIC management was simply unaware of any direct connection between John Hull or his representative, Robert Owen, and the Contra resupply effort, until press reports on this issue emerged about December 1986. The Maderas project was handled in the same manner as any other OPIC finance project and was not influenced, directly or indirectly, by the project sponsor's alleged connections with

the Contras, the National Security Council, or the Central Intelligence Agency.

In contrast, OPIC did receive advice from the National Security Council regarding the importance of the Aqaba project to U.S. national security. However, as the files provided this Committee bear out, notwithstanding this highly unusual occurrence, OPIC's management was adamant in its adherence to its statutory mandates, as well as to prudent commercial underwriting standards. The record amply demonstrates that even with expressions of support from the NSC, OPIC steadfastly refused to consider any proposal which did not satisfy those standards.

What is apparent from OPIC's handling of the Aqaba matter is that even when urged by another agency to support a project, OPIC management was unwilling to depart from its well-established internal policies and statutory mandates.

Finally, let me add that OPIC is an agency of the executive branch and is required by statute not only to operate under the policy guidance of the Secretary of State, but also to be governed by a Board of Directors that includes representatives of the Departments of State, Commerce, Treasury and Labor, the Office of the U.S. Trade Representative and the Agency for International Development. Thus, not only does OPIC routinely seek the views of other agencies; it does not proceed on projects that must go to its Board without the support of those agencies.

Let me now turn to the circumstances of OPIC's loan to Maderas Tropicales San Carlos, S.A., the Costa Rican project, including the credit decision, the procedures followed prior to disbursement and the steps OPIC has taken to collect on the

loan. I would also like to discuss improvements OPIC has made since that time in its credit policies. I will conclude my testimony by addressing the Aqaba pipeline project, particularly with respect to OPIC's contacts with members of the National Security Council staff.

OPIC's Loan to Maderas Tropicales San Carlos, S.A.

As this Committee knows, OPIC's mandate from the Congress is to assist the economic development of the world's less developed countries by providing political risk insurance, loans and loan guaranties to American investors who are prepared to invest in projects in eligible developing countries.

OPIC's statute requires it to operate on a self-sustaining basis, taking into account the economic and financial soundness of the projects it finances. Within that framework, however, OPIC's primary role is that of a development agency, not a bank. This means, first of all, that to fulfill the role established for it by the Congress, OPIC must operate in countries where commercial banks might not be prepared to lend; that it must accept some risks that commercial banks might find unacceptable; and that its procedures must differ in some respects from those of commercial banks. In particular, it is important to note that OPIC does "project" financing, not asset-based financing. OPIC's projects are always structured so that the primary source of repayment is the project's own earnings, whereas commercial banks often lend primarily on the basis of the collateral by which they are secured. Because banks doing asset-based lending expect to look only to that collateral, their procedures are somewhat different than OPIC's. Moreover, unlike commercial banks, OPIC normally attempts to restructure and save troubled projects, where that

appears possible, rather than put them out of business, when faced with a choice between restructuring and foreclosing.

Lending in less developed countries often means working in a difficult environment. Legal requirements that can be satisfied in a matter of hours in a U.S. jurisdiction can take weeks or months to satisfy in a developing country. Moreover, the field of local lawyers who are equipped to work on international financial transactions is extremely limited. Lawyers familiar with the domestic legal system are often unfamiliar with international lending. Local accounting standards may be very different from those that are accepted in the United States. Finally, because OPIC's legislation requires a special emphasis on small business, sponsors of the projects OPIC supports often lack sophisticated legal and financial expertise. And, because of the limited size of its staff, OPIC must rely on local lawyers and accountants to do most of the hands-on legal and accounting work required within the host country to complete its transactions.

In spite of these difficulties, OPIC's credit record compares favorably with that of most domestic banks. OPIC's historical loan loss record is about 6% of its overall credit portfolio. OPIC's outside auditors, who review loss reserves annually, have consistently found OPIC's loan loss reserves well within reasonable levels. OPIC's finance program is self-sustaining; thus its credit policies comport with OPIC's statutory mandate to operate on a self-sustaining basis.

Every lender has some troubled loans and it is clear now that OPIC's loan to Maderas Tropicales San Carlos, S.A. was one of those. However, the circumstances that combined here included many that no lender could have foreseen or averted. This case involved not only borrowers who may have purposely

defrauded the U.S. Government, but also a dishonest accountant and a lawyer with whom OPIC had a long history of favorable dealings who, apparently quite independently, not only misled OPIC by claiming, falsely, to have registered OPIC's mortgage, but also absconded with the registration fees. If the mortgage had been fully perfected when the borrower's fraud was discovered, OPIC could have proceeded against the collateral. By the same token, if the project had been established as represented by the sponsors, the problem with the collateral would have been insignificant.

In addition we can now see with the benefit of hindsight that additional steps might have been taken in the Maderas case by OPIC staff, particularly in connection with the credit decision and in the predisbursement procedures. As part of ongoing efforts to improve our policies and procedures, and to learn from our experiences, both good and bad, our procedures continue to be refined to strengthen our credit, disbursement and workout operations. While no lending institution can claim to protect itself fully against bad loans or collection problems, we believe that OPIC's current procedures significantly reduce the risks in both areas.

Let me turn to the details of OPIC's loan to Maderas.

Because OPIC has no overseas offices, it routinely relies on the economic or commercial sections of our embassies abroad for information regarding potential projects that might benefit from OPIC support. In September 1982, the economic section of the U.S. Embassy in Costa Rica gave an OPIC officer who had previously been in Costa Rica such information regarding a proposed woodworking project to be sponsored by a U.S. businessman. This information was further developed and OPIC proceeded to process a loan application for Maderas Tropicales

San Carlos, S.A. for the expansion of a wood products facility in Costa Rica for the manufacture of wooden tool handles and other wooden implements (the "Project").

The Project was to be the consolidation of three existing operations: a timber operation owned by U.S. citizen John Hull; a saw mill owned by U.S. citizen William Crone; and a wood products manufacturing facility owned by a Costa Rican citizen, Alvaro Arroyo. Each of the Project sponsors would own one-third of the consolidated company, Maderas Tropicales San Carlos, S.A., (the "Company" or "Maderas"), which was established in January 1983. The Company applied for an OPIC loan of $375,000 to consolidate and expand its operations. Maderas requested the financing in order to acquire an additional building, to purchase equipment, and for working capital.

The initial contacts in 1982 were followed by a loan processing period of more than a year during which OPIC requested, received and analyzed detailed information from the borrower and other commercial sources regarding the existing facilities, the proposed project, the sponsors and the projected developmental and U.S. economic effects of the proposal.

In addition to the initial contact with the U.S. Embassy alerting OPIC to the Project, OPIC had routine consultations with the Embassy which indicated that it was supportive of the proposed project and that it had no adverse information about John Hull or the other sponsors. The only other consultations with U.S. Government officials prior to disbursement of the loan were with industry experts at the Commerce Department in connection with a sectoral analysis of the Project to assure that there would be no adverse impact on the U.S. economy, and

with the State Department regarding the required human rights clearance.

From November 1982 through May 1983, OPIC's Finance Department reviewed information about the three companies' historical operations. General background information and financial statements for two prior years were provided for each company. Backgrounds of each of the sponsors and their track records were presented in resumes and personal financial statements. The sponsors provided projections of the Project costs, its financial plan (including use of loan proceeds), its capital structure (including planned ownership and equity contributions) and its current status.

The sponsors visited OPIC's offices in July 1983, and a site visit was made by an OPIC officer in August 1983. Following the site visit, a Finance Department Credit Committee met on September 9, 1983, and agreed to proceed with the loan.

OPIC verified the marketing information provided by the sponsors through discussions with prospective U.S. customers and the Company's U.S. distributor. In October 1983 OPIC checked with Paswok, a Seattle-based manufacturer of wheelbarrows, which orally committed to buy handles from the Company to displace those supplied from Korea. OPIC also spoke with a representative from Kelly Company, a wheelbarrow manufacturer in Mississippi; he indicated his company's interest in the products, especially since the delivery time would be much shorter than for products which he was purchasing from Malaysia. OPIC also contacted the Ames Company in West Virginia, the largest shovel manufacturer in the world; its representative stated that he was very impressed with the quality of the Company's product and he indicated that even if his company did not choose to switch suppliers at that time,

the Company would have no difficulty selling to smaller manufacturers.

Also in October 1983, OPIC received positive references from Maurizio Balboni, the Company's U.S. sales distributor, and two personal references for the project sponsor (John Hull) and his representative (Rudy Stieler). OPIC also contacted the First National Bank in Evansville, Indiana, and concluded that Crone Lumber, one of the sponsor's companies, had a satisfactory credit record. In addition, OPIC received letters in support of the U.S. sponsors from some of their long-time associates. Dun & Bradstreet reports were also obtained on the U.S. sponsors and related companies.

At about the same time, OPIC received clearance from the U.S. Embassy in Costa Rica to proceed with the project. OPIC's Development Department cleared the project for U.S. economic effects and Costa Rican developmental effects in November 1983. Human rights clearance was also obtained from the State Department at about the same time.

A loan paper was prepared, detailing the above information as well as the Company's proposed management and work force; its operations -- location, supplies, environment, marketing; its proposed product lines; existing market; projected supply and demand; pricing; competition; strategy; and a financial analysis of projected costs, including sensitivity analyses and a risk assessment.

On December 20, 1983, the Company's loan was approved by OPIC's Investment Committee, a body composed of all of OPIC's departmental vice presidents. There is no evidence of any attempts by representatives of the NSC or any other agency of the Government to influence the decision of the Investment

Committee, and I am convinced that there was no such attempt. A commitment letter was signed on the same day that the Investment Committee approved the loan.

Throughout the first quarter of 1984, OPIC worked with the sponsors to finalize the loan documentation. As collateral, OPIC accepted land, including timber and improvements, and equipment. OPIC also required key man life insurance on John Hull's life.

At the time the loan was closed, the Company itself did not own any land. Instead John Hull provided evidence that he had been given full power and authority by the owners of the land to utilize it for the Project and to use it as collateral for the loan. This authority was confirmed by the mortgage document and the opinions of Costa Rican counsel upon which OPIC relied. Several weeks prior to disbursement, the borrowers signed all of the required collateral security documents and left them with OPIC's Costa Rican lawyer for registration. Because OPIC's lawyer represented that the documents were at the registry merely awaiting final stamping, which, while purely ministerial, was known to be a lengthy process, OPIC decided not to hold up disbursement of the loan while waiting for registration to be completed.

After receiving other closing documents (including information on insurance, corporate resolutions, an accountants' certificate, appointment of agents for service of process and various certifications), the loan agreement, note, and project completion agreement were signed on March 30, 1984. The loan was disbursed on the same date and deposited in Maderas' bank account in Indiana. Funds were disbursed from this account and used to pay interest and other dollar expenditures, as well as to forward checks to John Hull who

exchanged these checks into Costa Rican colones ostensibly for use in the Project.

At John Hull's request, an OPIC finance officer visited the Project in May 1984 and observed the Project operations. She saw an operating sawmill and woodworking machinery, workers cutting wheel barrow handles, and pallets of handles ready to be shipped. The site visit indicated that the Project was in production as of May 1984.

Three semi-annual interest payments on the OPIC loan were made in a timely fashion. In October and November 1984, and again in January 1985, Hull had requested additional funding from OPIC in order to purchase additional equipment and expand its plant. The requests were forwarded to OPIC's Finance Department for consideration. The request for additional funding was denied on February 12, 1985, because the Project did not have the required 12- to 18-month record of successful operations. Hull also offered at that time to substitute different land for the land that had been mortgaged to OPIC, because, he claimed, the Costa Rican government intended to acquire the original property as part of its land reform program. OPIC requested additional information in order to be able to consider the substitution. Hull made another request for additional funds in March 1985, but OPIC did not receive that letter until July 1985.

Although the loan payments were still current in the summer of 1985, in July, OPIC received a letter from Hull indicating that the Project was in trouble. He also mentioned that his friend, Robert Owen, would be in Washington and would contact OPIC with regard to the Project. Owen, who had also spoken to OPIC officers in March 1985 on Hull's behalf with regard to the substitution of the collateral, met with OPIC officers on

several occasions in July and August 1985. He introduced himself as John Hull's representative, and provided a business card identifying himself as an employee of Gray & Company. Owen did not disclose any relationship with any government agency, and no one at OPIC had any reason to, or did, think he had any connection with the Government.

Hull, and later Owen, stated that the mortgage on the original property, which OPIC believed had been registered, was not in fact in the registry. OPIC immediately contacted its lawyer, who reassured us that the mortgage had been properly registered, and we began efforts to transfer the mortgage to the new property.

On August 20, 1985, an OPIC officer visited the Project to determine the extent of the problems referred to in Hull's July letter. It was immediately apparent to the OPIC officer that the Project had not proceeded according to plan. Hull blamed the Project's failures on his Costa Rican partner, Alvaro Arroyo. Hull complained that Arroyo was not a good manager and had run the business into the ground. Because of the extent of the problems, a return trip was made on September 25, 1985.

These two trips revealed a number of problems. It appeared that in addition to other problems with the Company's legal and accounting records, the contributions of cash, timber and the lumber mill were not reflected in the Company's books; Mr. Arroyo had abandoned the Project and left the country; and certain equipment was not suitable for the Project.

The Company had some accounting records, and most disbursements were supported by invoices. However, the records were inadequate to permit verification of the use of the funds. A review of the invoices offered to support the working

capital entries indicated numerous small expenditures, e.g., small parts, trips to San Jose, labor, etc. These items appeared to indicate a pattern of waste. Hull agreed with this assessment, claiming to have been victimized by his former Costa Rican partner, Arroyo, to whom he had entrusted the operation.

As a result of this meeting, OPIC requested that a number of steps be taken to get the Project back on track. As a development agency, OPIC's first reaction is to try to save troubled projects, not to put them out of business, and that is what OPIC attempted to do in this case. In any event, because it was by then evident that the mortgage had not in fact been registered, OPIC was not in a position to foreclose.

The OPIC officer, therefore, returned to Washington and began to work to try to find new equity participants. OPIC spent several months contacting possible participants in the Project. Discussions with two potential new investors followed; however, OPIC's efforts to salvage the Project were unsuccessful and no agreement with new equity partners was reached.

On January 26, 1986, OPIC's officer returned once more to Costa Rica and learned that, while Hull had taken some of the steps he had agreed to, no progress had been made toward resolving many other problems.

Meanwhile, OPIC arranged to transfer its mortgage to the new property Hull offered as collateral in lieu of the original land that was to become part of the land reform program. Mr. Hull provided an appraisal by an independent appraiser showing that the value of the substitute property exceeded the amount of the loan. Mr. Hull's lawyer, Diana Chavarria, recorded the

new mortgage in her protocol book. OPIC's original lawyer, Luis Carballo, tried to explain the failure to register the original mortgage by claiming that an employee of his firm had misappropriated the registration fees. Subsequently, it was alleged that Mr. Carballo himself had misappropriated the money. Mr. Carballo ultimately took his own life in September 1986.

Mr. Pacheco, Mr. Carballo's former law partner, undertook to register the new mortgage, at no cost to OPIC. However, because of improper recordation of the deed and because of delays in receiving a necessary government approval, he was unable to do so for over a year. Finally, on September 27, 1987, the approval was obtained. In the meantime, OPIC's Costa Rican attorney strongly recommended that OPIC not begin any legal action against Hull or the Company prior to obtaining the final approval, because he believed Hull's cooperation was important in registering the new mortgage. For that reason, OPIC did not consider Costa Rican criminal proceedings or begin formal foreclosure proceedings in Costa Rica until October 1987, after the new mortgage was finally registered.

However, on April 7, 1987, OPIC referred the Maderas matter to the Justice Department for appropriate action both in collecting on the loan and in investigating the possibility of fraud by the Project's sponsors. That investigation is still under way.

Let me now turn to our current credit policies. As part of our ongoing efforts to improve our policies and procedures, we have not only continued to refine our credit policies; we have also begun a thorough review of the adequacy of our security throughout our loan portfolio. As a result, our current credit policies, both prior to and post disbursement, are considerably

tighter than those in existence when the Maderas loan was made.

Specifically, except where explicit exceptions are approved by management, current finance department policies require:

- o audited financial statements on project sponsors' companies going back at least three years;
- o more stringent credit and reference checks, including credit reports of all U.S. project sponsors, bank references from all principal banks with which the sponsors do business and independent verification of material assets;
- o in-depth marketing studies, plus evidence of actual purchase commitments, or in appropriate cases letters of intent, to support sales projections;
- o disbursement in tranches, as the project satisfies agreed milestones, rather than in a single lump-sum disbursement;
- o independent certification of sponsors' equity contributions prior to disbursement;
- o site visits to confirm valuation of property offered as primary collateral and, as appropriate, independent appraisals of secondary collateral; and
- o mortgage registration prior to disbursement.

Application of these policies to current finance applications has, we are confident, reduced OPIC's credit risks significantly.

In addition, as OPIC's portfolio has grown in recent years, its post-disbursement procedures have been significantly improved. Our loan monitoring staff has been expanded and its caliber improved, and new procedures for administering troubled

loans have been adopted. Moreover, for the past two years our books have been subject to audit by a big-eight accounting firm, which has sampled our loans for adequacy of collateral and other documentation.

Finally, our General Counsel's Office has begun a case-by-case review of our security on each outstanding loan and loan guaranty. Preliminary results indicate that the problems we experienced in Maderas are highly unusual, and that overall our collateral position is sound.

Let me now turn to the facts surrounding OPIC's role in the Aqaba pipeline project.

The Aqaba Pipeline Project

In February 1984 Bechtel Corporation approached OPIC with preliminary requests for insurance and financing in connection with a project to build an oil pipeline from Iraq through Jordan to a terminal at the port of Aqaba. As a result of closure of the port of Basra due to war damage and Syria's refusal to permit Iraq to use an existing pipeline through its territory, Iraq needed to expand its capacity to export oil through new pipelines and was considering several possibilities, including the Aqaba pipeline.

The project was a large one ($1.1 billion) and entailed substantial U.S. procurement from Bechtel's suppliers and subcontractors, including U.S. Steel, General Electric, and Chicago Bridge & Iron, as well as Bechtel's services as general contractor. OPIC has a specialized insurance program for contractors and exporters and is experienced in insuring and financing pipeline projects. The project would also confer substantial economic benefits upon Jordan in the form of jobs

created during both the construction and operational stages of the project, tariffs to the pipeline company, and enhancement of the port facilities at Aqaba. Discussions with Bechtel continued through the summer of 1984.

In general, such a project would be of particular interest to OPIC because of the substantial benefits that would accrue to both the U.S. and the project countries. However, there were also some special problems associated with the Aqaba Pipeline. One of the problems, which then seemed insurmountable, was that OPIC had no agreement with Iraq permitting operation of OPIC's programs there, and no prospect of obtaining one because the U.S. and Iraq had no diplomatic relations.

In November 1984, the U.S. and Iraq restored diplomatic relations, and there was almost immediate speculation about the prospect that OPIC programs would become available there. In January 1985 Bechtel renewed discussions with OPIC about support for the pipeline. In February 1985 OPIC's Board gave the approval necessary to begin negotiating an agreement with Iraq, subject to the condition that, if an agreement were reached, each Iraqi project would have to be approved by the Board. The text of a standard OPIC agreement was presented to the Iraqi Government by the U.S. Embassy in Baghdad in the spring of 1985.

In the course of the negotiations on the bilateral agreement, OPIC also gained more specific information about the nature of the political risk that was holding up the project. Evidently, Iraqi interest in the Aqaba pipeline was conditioned upon relief from debt service on the project's financing during any period when its operation might be disrupted by hostile Israeli action.

This was an unusually specific risk but one that clearly fell within OPIC's statutory authority to insure against war risk. The objective likelihood of an Israeli attack on the pipeline was never determined and was probably indeterminable. Whether paranoid or prudent, the Iraqis' perception of this risk was central to their approach to the Aqaba pipeline project. The contractor, subcontractors and suppliers evidently were favored because they were U.S. firms. The Iraqis also sought U.S. lenders and U.S. Government guaranties. However, as no lender would agree to relieve a borrower of debt service in the event of war damage, the project was stalemated by the Iraqi perception of war risk and their demand for unconventional relief from debt service if Israeli action affected the pipeline.

In May of 1985 OPIC was approached by Mr. Bruce Rappaport, a Swiss citizen whom Bechtel had authorized to address the political risk problem, with a specific proposal to provide this relief. Mr. Rappaport presented himself as a financier with close ties to Israeli leaders. Mr. Rappaport and his attorney, Mr. Julius Kaplan, indicated that the project also had support at high levels in the U.S. Government. They proposed that OPIC fashion a special contract of war risk insurance to provide protection for project lenders which would permit the lenders to finance the project in spite of the peculiar terms demanded by Iraq. OPIC's exposure was to be mitigated by a salvage fund provided by the contractors, the oil lifters, and the Government of Israel. Because of the delicate foreign relations issues that the project raised, but also because the proposal was so unusual and the amount of insurance so large ($350 to $400 million exposure was contemplated), we were not inclined to respond without indications of support to do so from high levels of the U.S. Government.

Support for OPIC's involvement eventually materialized and was confirmed in a meeting in late June 1985 with the Assistant to the President for National Security Affairs, Robert McFarlane. However, despite this indication of support for an OPIC role in the Aqaba pipeline project, on numerous occasions in communications with Mr. Rappaport and his representatives, Bechtel and the National Security Council, OPIC specifically identified the conditions that would have to be met before OPIC would issue insurance for the project.

The coverage requested for the Aqaba pipeline project was unusual in several respects. Availability of OPIC insurance is often an important factor in an investment decision, but the Aqaba project's prospect of going forward hinged very explicitly upon OPIC's ability to provide insurance, and the coverage requested was against a specific act of war that could be contemplated from the outset.

Furthermore, while OPIC's usual underwriting standards allow insurance against direct damage losses in smaller amounts without the prospect of salvage, where we were dealing with potentially very large consequential losses associated with a strategic asset in a country whose hostile neighbor had previously attacked other strategic assets, special care and a means to salvage any loss were required. In this case, Mr. Rappaport's proposal envisioned creation of salvage funds from which OPIC could recoup payments made under the insurance contract.

As Mr. Rappaport described the Iraqi demand and his own commitment, OPIC would bear no risk of attacks on the pipeline from any source other than Israel. Further, loss due to Israeli attack would not only be offset by recourse to the salvage funds but further minimized both by assurances that

Rappaport would obtain from Israel, and by the Israeli government's participation in the salvage fund, which Mr. Rappaport also undertook to arrange. On balance, it seemed that OPIC would be taking an unusual but acceptable risk.

Finally, the magnitude of the exposure was far beyond what OPIC had assumed in the past, or expected to assume in the future, without a sharing of that exposure with others.

Through the spring and summer of 1985, OPIC staff worked closely with Mr. Rappaport's representatives, Julius Kaplan and E. Robert Wallach, to try to fashion an insurance policy to respond to the requirements of the situation in a manner that would be consistent with OPIC's policies and its mandate to operate in a prudent, self-sustaining manner. This was approached on two fronts: OPIC would reduce its exposure to loss by sharing the risk with private institutions; and the "salvage" arrangements, which Mr. Rappaport undertook to provide, would relieve OPIC of loss in the event that it had to pay a claim.

The project promised to require the development of unique insurance arrangements that would take account of the complex and peculiar problems that had to be solved. The project involved not only Bechtel and its U.S. subcontractors and suppliers but also foreign suppliers, a consortium of U.S. and foreign banks, Eximbank and European export credit agencies, the Governments of Iraq and Jordan, a pipeline company and a terminal company with government and private shareholders, the oil lifters, OPIC and the private entities with which it would share the risk and the participants in the salvage package.

OPIC's efforts to formulate appropriate coverage assumed that the risk could be narrowly defined and that Bechtel and

the Iraqis could agree on its scope. We learned several months later that the circumstances in which the Iraqis expected relief from debt service may have been broader than those described by Mr. Rappaport. In any event, no arrangement was ever agreed on to cover the narrow risk of overt Israeli action causing damage to the pipeline, because the commercial conditions that OPIC and the others sharing the risk considered essential were never satisfied.

In the final stages of discussion, Mr. Rappaport's representatives began backing away from his commitments to arrange collateral for the salvage fund. At the end of August 1985, we were informed that Mr. Rappaport himself would not adhere to the terms of a memorandum of understanding countersigned by Mr. Kaplan, his attorney, which set forth a salvage package that would have been acceptable to OPIC. In September 1985, Mr. Kaplan then proposed a form of "comfort letter" to be provided by the Israeli government and, in October, Mr. Wallach proposed that at least part of the salvage protection consist of an assignment of the proceeds of U.S. foreign assistance to Israel. Mr. Rappaport had long spoken of a comfort letter, but OPIC never considered it a substitute for collateral. The concept of an assignment of foreign aid had obvious conceptual flaws. As a means of disposing of that proposal, we wrote to the Justice Department to obtain an opinion as to the legality and enforceability of such an arrangement. The request outlined the problems and we did not anticipate a favorable opinion. We received no response to this inquiry.

By the end of 1985, Bechtel itself conceded that the project was moribund owing to a lack of interest on the part of Iraq, which had in the interim proceeded with other pipeline

projects with capacity more than sufficient to meet its expect needs and provide strategic excess capacity.

Conclusion

It should be apparent that the Maderas and Aqaba projects, far from illustrating a common pattern, could hardly be more different. In the Aqaba project, OPIC obtained clear indications of NSC support for a project that promised benefits both to the U.S. economy and to the developing countries involved. OPIC, nevertheless, insisted on adhering to its statutory mandate to offer insurance only on a sound underwriting basis; and it is evident that, even though at times OPIC's insistence on a sound salvage package threatened to unravel the project, OPIC would not have offered insurance except on such a basis.

In the Maderas case, on the other hand, there was no indication of any interest from the NSC or any other government agency. OPIC's management and staff were simply unaware of the alleged connections between one of the project's sponsors and any agency or employees of the U.S. Government, and the project was processed without any outside influence.

The Maderas project is significant, however, insofar as it illustrates the problems faced by any development agency lending to projects in the developing world. These problems include the time required to perfect security, the shortage of experienced local counsel, the expense of site visits and monitoring, and the lack of what could be considered basic legal and accounting infrastructure. In addition, as a development agency, OPIC's primary goal is to see its projects

86-477 O - 88 - 7

successfully surmount these and other difficulties; thus, its initial response to a project showing signs of trouble is not to foreclose, but to seek to save the project by bringing in new investors or new management or by restructuring the project to take account of unforeseen conditions.

OPIC continuously seeks to improve the ways in which it satisfies its Congressional mandates to provide development assistance while operating on a self-sustaining basis. Thus, we have implemented new procedures designed to better safeguard our financial interests and the integrity of the projects we support, without imposing undue burdens on the project sponsors, burdens which could in themselves constitute barriers to the very investment that Congress has directed us to promote. We believe that our current credit and workout policies outlined above have significantly improved the security of our portfolio.

Finally, with regard to OPIC's relationship with other government agencies, let me again point out that our Board of Directors includes representatives of six other agencies, and that our top officials all serve at the request of the President. Thus from time to time we can only expect to be subject to requests from other parts of the executive branch, as we were in the Aqaba case.

The important question is not whether such requests are made, but how they are handled by OPIC, and, most importantly, whether OPIC's management or staff deviates from existing policies, statutory requirements and prudent underwriting principles; or whether OPIC adheres to those standards. The Aqaba project demonstrates that even in the face of clear indications of NSC support, OPIC continued to operate as Congress intended. I am pleased to say that I can find no fault with the way my staff handled the Aqaba project, and I am confident that OPIC will continue to adhere to its mandate should similar circumstances arise in the future.

REPUBLICA DE COLOMBIA

DEPARTAMENTO ADMINISTRATIVO DE AERONAUTICA CIVIL

FONDO AERONAUTICO NACIONAL

RECIBO Nº 16492

Aeropuerto de SAN ANDRES ISLA Fecha JUNIO 25/83

Servicios Aeroportuarios prestados a la aeronave, tipo P.E.Y BE SON DOS AVIONES
SON DOS AVIONES

Matrícula N 666 Pf N-9168 Peso (P.B.M.O. en kilos) 2500 CADA UNA

Piloto MARCO AGUADOX JOHN HULL Empresa o propietario PARTICULAR

Procedencia MROC Día 25 Mes 06 Hora llegada 09:20 HL.

Destino CONSUME MIAMI Día 25 Mes 06 Hora salida 10:30 E.T.D.

Aterrizajes No. 2 V/r. Aterrizaje $ US16.00 V/r. Total $ US32.00

Estacionamiento No. Días V/r. Diario $ V/r. Total $

Total a cobrar $ US 32.00 ✓

SON: TREITA Y DOS DOLARES AMERICANOS U.S 32

Administrador Aeropuerto
o Asistente Administración

(Nota) La liquidación para vuelos internacionales, debe hacerse en DOLARES, de lo contrario se hará en su equivalente en moneda nacional especificando el cambio oficial del día en que se efectuó el aterrizaje.

MISCELLANEOUS RECEIPTS OF JOHN HULL 811

TPC-708

TEXAS PETROLEUM COMPANY

TEXACO

COMPROBANTE DE ENTREGA
PRODUCTOS DE AVIACION TEXACO

No. 109524

LUGAR O AEROPUERTO	NUMERO DEL AVION	MARCA	TIPO	DESTINO	FECHA	AÑO	MES	DIA
San Andres	N666PF	Beechcraft	55	Mexico Cozumel		83	06	15
ENTREGA A (Compañía o Entidad) MARCO AGUADO		PERSONA AUTORIZADA PARA RECIBIR			TARJETA CREDITO No.			
BASE A QUE PERTENECE EL AVION					FECHA VENCE TARJETA CRED.			

US 71.30 ✓

U.S $ 71.30

PRODUCTOS	GRADOS	METODO ENTREGA	CANTIDAD ENTREGADA EN GALONES AMERICANOS EN NUMEROS	EN LETRAS
GASOLINA DE AVIACION	100/130	ST	62	sesenta y dos
TURBO COMBUSTIBLE	A-1			
HIDRAULICO OIL 15				
METANOL		BLK		
ACEITE DE AVIACION	120			
ACEITE DE AVIACION AD	100			
TURBO LUBRICANTE				

LECTURA	CONTADOR IZQUIERDO	CONTADOR DERECHO
DESPUES		8C3877
ANTES		803535
DIFERENCIA		6.2

EQUIPO No. 89147

TANQUEO EMPEZO 11 50 TERMINO TANQUEO 12 00

FIRMA DEL PILOTO

PREPARADA POR

ORIGINAL Cliente
AMARILLA Planta
AZUL Contabilidad
VERDE Piloto
ROSADA El Dorado

LITO. TPC.

192

TPC-768

TEXAS PETROLEUM COMPANY

COMPROBANTE DE ENTREGA
PRODUCTOS DE AVIACION TEXACO

No. 109625

LUGAR O AEROPUERTO	NUMERO DEL AVION	MARCA	TIPO	DESTINO	FECHA	AÑO	MES	DIA
San Anchos	N91CB	Beechcraft	55	MEXICO C. COZUMEL		93	06	25
ENTREGA A (Compañía o Entidad)	PERSONA AUTORIZADA PARA RECIBIR				TARJETA CREDITO No.			
M Texan N40C								
BASE A QUE PERTENECE EL AVION					FECHA VENCE TARJETA CRED.			
Costa Rica								

PRODUCTOS	GRADOS	METODO ENTREGA	CANTIDAD ENTREGADA EN GALONES AMERICANOS EN NUMEROS	EN LETRAS
GASOLINA DE AVIACION	100/130	St	47	Cuatro dos
TURBO COMBUSTIBLE	A-1			
HIDRAULICO OIL 15				
METANOL		SLK		
ACEITE DE AVIACION	120			
ACEITE DE AVIACION AD	100			
TURBO LUBRICANTE				

US 48.30 ✓

US $ 48.30

LECTURA	CONTADOR IZQUIERDO	CONTADOR DERECHO	EQUIPO No. 99147					PREPARADA POR:
DESPUES		803939	TANQUEO EMPEZO	12	05	TERMINO TANQUEO	12 15	
ANTES		803897	FIRMA DEL PILOTO					
DIFERENCIA		42						

ORIGINAL Cliente
AMARILLA Planta
AZUL Contabilidad
VERDE Piloto
ROSADA El Dorado

LITO. TPC.

193

Q- 006625

ROOM	(LAST) NAME	(FIRST)	(INITIAL)

ROOM RATE	NO. IN PARTY	
38	2	
IN 6/29 OUT	FROM	TO
ROOM CHARGE	ROOM NO.	NEW RATE

DATE	REFERENCE	CHARGES	CREDITS	BALANCE	PREV. BALANCE PICK-UP
7858					**.00
	06/29/83 ROOM 441	38.00			
7955	06/29/83 TAX 441	2.66		**40.66 /28	**40.66
	06/30/83 PHON 441	2.40		**43.06 /80	
7956					**43.06
	06/30/83 PAID 441		**43.06	**.00 /00	

Almuerzo 30/6/83 7.00

Total → 50.06 V
U.S. -

Gerardo J. Durán A.

RATE 38

ROOM NO. 441

PAY ONLY LAST AMOUNT IN THIS COLUMN

QUALITY INN

Quality Inn Airport

1850 n.w. 42nd avenue (le jeune road)
miami, florida 33126 Tel. (305) 871-4380

TPC-768

TEXAS PETROLEUM COMPANY

TEXACO

COMPROBANTE DE ENTREGA
PRODUCTOS DE AVIACION TEXACO

No. 109626

LUGAR O AEROPUERTO	NUMERO DEL AVION	MARCA	TIPO	DESTINO	FECHA	AÑO	MES	DIA
San Andres	HEEKP.F	Beechcraft	55	Publico Comercial		53	6	25
ENTREGA A (Compañía o Entidad) Marco Nevado	PERSONA AUTORIZADA PARA RECIBIR				TARJETA CREDITO No.			
BASE A QUE PERTENECE EL AVION					FECHA VENCE TARJETA CRED.			

$ 1.274 =

US 18,20 ✓

U.S. $ 18.20

PRODUCTOS	GRADOS	METODO ENTREGA	CANTIDAD ENTREGADA EN GALONES AMERICANOS EN NUMEROS	EN LETRAS
GASOLINA DE AVIACION	100/130			
TURBO COMBUSTIBLE	A-1			
HIDRAULICO OIL 15				
METANOL		BLK		
ACEITE DE AVIACION	120			
ACEITE DE AVIACION AD	100	BLK	7/4	siete cuartos
TURBO LUBRICANTE				

LECTURA	CONTADOR IZQUIERDO	CONTADOR DERECHO
DESPUES		
ANTES		
DIFERENCIA		

EQUIPO No.

TANQUEO EMPEZO 12 15 TERMINO TANQUEO 12 30

FIRMA DEL PILOTO

PREPARADA POR:

ORIGINAL Cliente
AMARILLA Planta
AZUL Contabilidad
VERDE Piloto
ROSADA El Dorado

Q- 085828

ROOM	(LAST) NAME	(FIRST)	(INITIAL)
	JOHN HUIL.		
	GERARDO. DURAN.		

ROOM RATE	NO. IN PARTY	
40	2	
IN 6/26	OUT	FROM / TO
ROOM CHANGE	ROOM NO.	NEW RATE

DATE	REFERENCE	CHARGES	CREDITS	BALANCE	PREV. BALANCE PICK-UP
6632					**.00
6650	06/26/83 RSTA 438	18.54		**18.54 /12	**18.54
6797	06/26/83 LDST 438	2.26		**20.80 /02	**20.80
	06/26/83 ROOM 438	40.00			
6821	06/26/83 TAX 438	2.80		**63.60 /09	**63.60
6822	06/27/83 RSTA 438	8.30		**71.90 /15	**71.90
	06/27/83 PAID 438		**71.90	**.00 /00	

U.S.

PAY ONLY LAST AMOUNT IN THIS COLUMN

RATE 40

ROOM NO. 438

1850 n.w. 42nd avenue (lejeune road)
miami, florida 33126 Tel. (305) 871-4350

Quality Inn Airport

Cantidad

Orden: Favor Expedir
esta cantidad
"Todo"
Bolsa.
Marcos lleva dinero
suficiente.

Hadamo

(2.000)

Pagué: Favor Reponerle esta cantidad de su Tarjeta y Retirar de su Bolsa.

Hagase lleva dinero suficiente.

Muchas.

U.S $200.00

27 junio 83

Recibi de Marco Aguado la suma de $ 200.00 (doscientos dólares) para gastos durante la permanencia en Miami, U.S.A.

Gerardo Durán A.

US $200.00

Recibi del Sr MARCOS AGUADO la CANTIDAD de $ 200.00 DOLLARES EN CONCEPTO GASTOS de ESTADIA Y PERMANENCIAS EN MIAMI

1-7-83.

Aug 7 - 43 42

Dear Doug & Hunter

I Parent written thinking you or Hunter would show up but guess I better write & give you a yearly report -

I brought Jeep Datsun over to Granada & had the clutch adjusted & new points & plugs put in & it is in a garage of a friend in Granada -

Picked on the bus & it is in no hell gate - windows all broken, front tires stolen etc - so made a deal with a used car dealer to pull it to Kiss but & see if we could sell transmission, axles etc & get something out of it - The farm is getting along o.k. & have about 6 men working clearing jungle & have been hauling 3 airplane loads of seed yet per week - took out 20 of the worst old cows - if 40 good heifers in this place so we would have good stuff coming on for the

future - ~~At the moment you have 10,000~~ I have 16,000 cattle - Hunter 12,000 ~~acting airplane pilots etc~~ All continue to carry the operating expenses until we can settle with you & Clara

I'm trying to pick up 1500 more on the other side of the ranch & may get nothing if possible - This is level ground & swampy in the rainy season but would be ideal for the fish deal - With my fish prices what they are now it would be an ideal time to instruct ~~[illegible]~~ some people in investing in the fish deal & we put up the bond - If you have time please see what we can do -

If cattle prices stay where they are I should be in good shape this fall as I have 200 steers ready to go in Oct - Please keep an eye open for a good 180 in the 10, 12, or 14 valley class & pick it up for me -

Dec 1 - 73

Dear Hunter & Dr D -

Thanks for your letter of 25th -

I will do anything to help you out of the D C 3 deal - Romero is buying the mule from Don Jose to Jesus which would give him the whole Mesa of 1 or 2 P. - He wants possession if him as they would be entitled - 2nd by (he wants you some details in a few days) -

About the 2:c I thought Romero called you - He thought he might be with Robertson 5TCA commission in Penasco - He was worried [illegible] but if the one you have on order has arrived he will take it & will buy -

Don is in San Jose at the moment & but I have our farm next week but will see you [illegible] in a few days - The farm will not carry any more cattle but we could do with more hired this dry season if Jesus

would be kind enough to loan us the money

If we could buy the adjoining farm of about 350 to 400 acres for around $4000 I think we should do so — If we want to sell later I think we could sell the larger unit easier as all the Canyon seem to want to buy 160 + up acres at a time —

I have had some trouble with title on my land at Saltgrass but had a meeting yesterday with President Figures + he promised to help me straighten out the deal —

Everyone here is O.K. + we will be looking forward to your visit around the end of June or hopefully before —

I don't think it would take much money to get in on Powers deal + it is the kind of thing you + Dug would be able to

Oct 19

Dear Hunter & Dee Dee —

You can see Jim still having me hell of a fight on my hands.

The farm at Cano Ciyo is going OK. & you will see by the quarterly report we now have a rather large cattle herd there —

~~Jim written Dave to see if he couldn't~~ come down - We should lay in a good supply of gasoline oil, barbed wire, herbicide etc this coming dry season Jim running short of money so if either of you fellows come up with a

good deal there & if could bring yours investment up even with mine I'm sure it would finish the farm & it would be self supporting from then on —

There are no cattle or clearing loans available here & probably won't be for some time to come —

Hope you fellows are both O.K. & hope to see you down here when the snowballs start flying —

We plan to go to Colorado about the middle of Dec - with Johnny & spend Xmas there

Sincerely
John

Dear Doug -

As you can see I'm still having one hell of a fight down here & the part that hurts is now with lawyers involved it is very expensive -

I haven't seen the ~~month~~ quarterly report they have ready in the office but I'm sure if you & Hunter would bring your investment in the farm up to what mine now is it would clear & fence the other part of the land & the thing will be off supporting from then on -

If you get a chance - why not - fly down -

I plan to go to Colorado with Marguerite and Johnny about the 15th of Dec & stay three X-mas -

Hope you are all well -

Sincerely
John

Feb 1922
merger agreement between Hull, Moody & Siple.

That the shares of Coon College shall in the event of the demise of any one of the 3 shareholders ~~the shares of the deceased shareholder~~ shall be sold at current value; ~~but the value shall be~~ ~~Current value shall be~~ established by the figure agreed upon the end of the last annual meeting & the value of the live stock will be determined from inventory.

It is agreed that the 2 remaining shareholders ~~shall purchase the shares of the shareholder~~ deceased, in the event the 2 shareholders remaining do ~~not~~ exercise the option within 90 days the deceased that holds the shares of deceased is free to sell them on the open market.

If the 2 remaining shareholders exercise option to buy at the end of 90 day period 1/3 shall be paid cash, the balance shall be 1/3 in ~~paid~~ the remaining 1/3 at the end of the 24 month period, the balance shall draw interest at the rate of 10% per annum ~~from the date of the exercising of the option~~ the balance in the ~~co.~~ name shall be divided 1/3 and 1/3 to

Dear Hunter + Doug. June 1974 Sunday

Happy to receive Doug's letter + hear you fellows plan to come down in July ( ) can't find Doug's letter + don't know his Canadian address so will ask you to pass this along if you will please -)

Last week I was with Carlos + two Juniors from Virginia - Carlos sold them ~~3~~ 6 lots behind my house at El Coco for $16,000 - also closed a deal with them on some property near Cartago + they are to pay in July - I think Carlos will make 5 or 10 grand on the deal so hopefully will be able to pay you -

The farm work is going along O.K. + we have cleared a lot plus chopped + put herbicide on the old pasture. We have been keeping between 6 + 8 people

working there –

Everyone here is O.K – The dry season has ended & it is rather warm & we have had a lot of rain the last 10 days –

I have had a squatter problem at Sabogal & have spent a lot of time & money fighting those bastards but hope to have them in jail in a few days –

Hope everything is O.K. in the North Country –

Let us know when your plans are a little more definate –

Sincerely

John

30 Sept., 1974

Dear Doug & All,

Not much new since the last letter but will write this and get Judy to send it with the year end report which is due here the end of Sept.

I don't think Carlos has done anything about the lift. I've been after him for 2 years to finish that boat at El Coco so we could do some deep-sea fishing. I think that should have priority over the lift but can't do much about getting either job done.

We cut the lumber for the houses on the East side of the property and I'll fly the tin up this week.

I think we will stop clearing now until the start of the dry season. Then cut, burn and plant in the ashes. We have some nice seed beds up there now so will have plenty of seed.

Did the furniture people ever tell you how their plant in Guatamala worked out ?

Hope you fellows are all O.K.... Please pass this on to Hunter.

Hope to see you all soon.....

Sincerely,

John Hull

PS, Mr. Siple, I will not be able to get your fiscal report in until the next week as we are in the process of moving the office in to town and at the moment everything is in disorder. Hopefully this move and some changes we are planning on making will be to your advantage...

Sincerely,

Judy

Dear Hunters & Dec Dec Nov Dec 1974

I enjoyed the short visit we had & Thanks for coming by the house -

After you left I called Hollingsworth about the OC 3's & he said they had put the carbide in the unlicensed one & were going to open your back & advertise it made a flame & would keep you informed - Judith sound like she was going to be able to start this

On the farm at Casa Cuan everything is O.K. We have seven people working & yesterday the woman from the west Calves ias & Brandis & associated around the Log & carbon - We have two fellows cutting out house pattern to build a house on the west side of the farm - Sincerely John

HOTEL FORTUNA
CABLES: "HOTELFORTUNA"
APARTADO 7-1570
AV. 8 - CALLE 9 Y 11
SAN JOSE, COSTA RICA
CENTRAL AMERICA
TELEFONOS: 22-55-66 22-61-66 22-66-77 22-66-77

May 1975

Dear Hunter —
I sold the [illegible] to
a fellow from Panama + never
met another 171 — would like
to have a fairly cheap 1954 or 55
but the main thing is that it
is a B model with the big flaps
+ fairly low time engine — The
maintenance deal here is created as the
U.S. now so it should be in fairly
good shape —
If you can find one please buy
it + let me know what price + I'll
send the $ money — I'm thinking one
could go for 6 to 6500 — don't worry
about radio equip I have a lince mech.

HOTEL FORTUNA
CABLE: "HOTELFORTUNA"
APARTADO 7-1570
AV. 8 - CALLE 2 Y 4
SAN JOSE, COSTA RICA
CENTRAL AMERICA
TELEFONOS: 22-89-44 22-61-66 22-89-77 22-89-77

... which will work for the V.A.R.
... could pick up a used ADF
... if in poor as his inspection
... but permit - Case of U.S. registration
... it to fly over up around the ~~end~~
... middle of July & keep it down until
... ready to ... in the time
... know this is a lot to ask
... but as they say here God will pay
... you in your kindness" ——
... Jack Kay & the family are all
... K
... We have a new road into the farm
... can Liega & all is well there) -
... Sincerely
... John

Dear Hunters + Dee Do — May 19 73

We have just finished branding
ourselves on the cows ear (Cow Cows
+ ear marking the ~~Calves~~ Calves — the ear
Tells how old always but a different brand
than the others Jimmy — + is JH-5 —

The present census is as follows

Cows that have had calves 54
+ are 3 years of age

Heifers that have not calved 65
as yet + are from 1 year to 3yrs

Female calves 14
Male " 12
Bulls for breeding ~~3~~ 2
8 Steers on hand 15

Present 167 total

May 12-1973

We need to buy at least two
more good bulls for breeding —
I wrote Doug the other day that I

wont feel the fellow there has stolen any - When we bought the place with the 99/ had there were a lot too old to value & really a lot of junk cattle - The foreman from ~~the~~ here culled out 50 head & replaced them with yo before from here - These I traded even & feel it was a good deal for Cano Cuya & I was able to better the calls & sold them at the local butchers shops so didn't have any worry or trip but would have to ~~have~~ Juan moved the 50 to Cano Cuya on the 30 were there 25 & a time for using handling I think that caused some confusion in all inventories - Anyway I'm glad we have a book up as we have numbered all the cows on all the farms & are putting in a card index system so we will know calf percentages per year plus taking a monthly inventory now -

Chalo is flying the 170 & doing very well - I think it would be a good idea to sell the Pipes & pick up another 170 or if you will please keep an eye open for one B model 170 - I will be down to the US about 1st of July or 1st of Aug - so you can give me a call or try to drive over to the show - I haven't finished the contract on the 10 acres on the East side of the farm yet The new house is - You fellows should let me know if you want to continue clearing or stop for awhile - he will need to said that 80 @ an hour -

I think I have given each agent sold for $50 - but don't know the money yet -

Sincerely
John

Ciudad Quesada
March 31, 1976

Mr. Walter Moody
Mr. Douglas M. Sible
U.S.A.

Dear Moody and Sible,

I received the check of Don Johnson, will deposit in the farm account.

Sorry you weren't able to go over everything with the bookkeeper as she has all the receipts of money spent, account of debts etc. that José didn't have.

We have gone over every bill from day one. José and Ray went to the farm and checked all cattle numbers calves, cows, bulls etc. We then brought out the foreman and went over the inventories with him, the ex-foreman, and Juan the foreman here. They seem to have it all clear and we didn't lose any steers as they were traded for heifers.

José is going to send you a complete accounting just as soon we take in two new bulls take out the bulls and young steers and put in a year's supply of salt, herbicide, Vacoline, etc.

Enjoyed your visit and at least you did get us on the ball around here.

What date is the RAM shindig in Canada?

Sincerely,

John Hull

John Hull

Ciudad Quesada, Costa Rica.
August 15, 1976.

Mr. Hunter Moody
Box 280
Taylorsville, Illinois.
62568 - U.S.A.

Dear Hunter,

We have had six weeks of raining every day, the worst we have ever had here I guess. The last few days have been nice so hope - fully we are out of it now.

When you and Douglas come down? Would you please pick up that portable air conditioner at squeeks house and bring down?.

Before I went to the United States in July I let a clearing contract at Caño Ciego, but with the constant rain the contractor pulled out and I haven't tried to replace him due to the great money shortage in Muelle.

I am just keeping the foreman plus three workers on the pay - roll there. Next dry season I will try to let the herbicide work out on contract.

If the dry spell holds, next weeks I will get the vacine up there and we will vacinate everything however it has been impossible until now.

Hope all is well in Illinois , and the new factory is doing better than expected.

Sincerely,

John Hull

John Hull

John Hall Clarke
46-06-41 Apdo. 50
San Ramón Costa Rica

JUNE 17, 1978

-Dear Farm Owners-

Just a short leeter to let you know we are in big trouble here and perhaps try to explain how we got that way and let let you know that I do not have a solution in sight.

Jose has decided he has had enoughand turned in his resignation. I am not angry or critical as I am probably the bigest offender of the bunch, but just a quick check around the various farms will explain the work extra and worry Jose has had and I think you can understand his reaction.

If we start on the East with the JOHO FARM it has always been slow on money and some of the JOHO owners associates got a $2.000 check from me saying they wereauthorized to do so. There seemed to be some confusion among the people envolved and the bank said they wold not be responsible to stop the payment on the check, so far the past three months I have had to keep my checking account below $2.000 so they could not cash the check. My expences are over $1.000 per week so this has caused untold trips to the bank for the office personel.

The Sam Hayes and G.A.Cox operation borrowed money from us promesing to pay before last Christmas and have not received any money from the U.S. investors for two years. On the Murphy farm Jose caught the foreman trying to pad expences on herbicide and tractor work and we fired him. In the fight at that farm we had to hire a lawyer make a half dozen trips to the farm for inventory trying to hire another man etc.etc. We can not recober our out of pocket expences with the administration fee in the next four months.

On the Monico farm we calculated the money to cover the budget before theen of the rainey season so supplies could be moved in by road. We are now three weeks into the rainey season roads are closed and just now received the money. At the Cano Ciego farm three years ago cattle prieces were good and over half of the farm was cleared and it looked like the farm could carry itself. However much of the pastures were newly cleared jungle and required a lot of herbicides and han chopping, many cross fences had to be built cattle prices fell to the point that cattle operations in the U.S. on completly cleared and fenced ground were not coming close to carrying their expences. We have had to let

./.

BEST AVAILABLE COPY

John Hull Clarke
Tel. 45-06-41 - Apdo. 50
Ciudad Quesada Costa Rica

Some pictures grow back and they find all kinds of ways to cut corners and in the end I have had to put up the money to carry the operation thru.

At the moment I am holding $ 25.000 in bad checks and expired notes. Mike has worked the ill out of both John and Jane.

On Costa Rica we have had a lot of it on the last quater payment on the sale of a truck. I hope we will get the money or the truck but has meant many trips to the lawyer,police,San Jose,etc.for Jose and in the meantime the farm is out of operating capital and correspondence has not been answered.

I have hired a young fellow that does not speak english to run the office,but he is doing a hell of a job on experience.

If anyone want to change,sell or trade their certainly won't be any hard feelings and if you have any ideas they will be welcome. In the meantime I will just have to see what we can work out.

Sincerily,

John Hull Clarke.

c.c. Rich-
JHC/lma
c.c. William C.Shenk
William Crone
Paul E.deFriece
Col.Joseph Yurko
William J.Knoll
Howard Moore
Arnold Holstein
Edwin C.Smith
Douglas W.Sizzle
Hunter Moody
W.David Crow
Hoyt C.Murphy
L.Raymond Dietzrich
Joe Fogarty
Roland L.Gobering.

BEST AVAILABLE COPY

John Hull Clarke
Apdo. 50 - Tel. 46.06.61
Ciudad Quesada, Costa Rica

March 6, 1980

Mr. Hunter Moody
P. O. Box 280
Taylorville, Ill.
62568 U. S. A.

Dear Hunter Moody:

Some where we got our wires crossed. We received your call and a telegram to pick up Pagani. I had the mechanic have the car washed and serviced and go after him. However, Pagani informed him that he did not know John Hull and did not want to come to San Carlos. The next day I called him and he said he had no interest in a farm on the Atlantic side and was looking for a farm in Guanacaste.

Almost any time that people from United States go to a hotel in San Jose, the people grab them and convince them to go to the Pacific side.

From $180.000 to $200.000 is a fair price for that land and is about the price land is going for here. The only thing a U. S. buyer will pay more cash and here everything is sold on the if-come.

Most of that farm is now clear and all fenced and cross fenced. We have about 30 acres of brush that need to be cut and burned now and it will be a lot more presentable. Now is the time to show it and sell it so if you get someone interested send them down and I will show them the farm. Hopeing all is well and and going good in the North Country.

Sincerely

John Hull

John Hull

October 10, 1980

Mr.
Hunter Moody
PO Box 280
Taylorsville, Ill.
62568

U. S. A.

Dear Hunter:

I enjoyed the lunch and visit with you folks and looking foreword to your visit at Christmas time.

Regarding the farm deal, if you want to run another advertisement in the Wall Street journal I would rather sell than anything else.

I'm not sure I can put that lime tree deal together, the banks have been out of funds for all loans for over six months now and the colon is selling for ¢10.50 now 412.00 to the dollar which means our currency in effect has devaluated from 20 to 30 percent and gasoline is now over $3.00 per galon, so we do have our problems.

Sincerely

John Hull

John Hull Clarke

John Hull Clarke
Teléfono 46-06-41
Apdo. 50
Ciudad Quesada, C. R.

April 3, 1981

Mr.
Hunter Moody
PO Box 200
Taylorsville, Ill
U.S.A. 62568

Dear Hunter:

I wonder if you heard anything from the offer to sell Cano Diego.

If you get a live one don't let him get away.

We are under a full scale push by the communists here. They have squatters on six different farms now including about a dozen at Cano Diego.

I have a lawyer working on the court order to have them removed which we will be able to do OK but it takes time and expenses to get the job done.

When the police remove these people then the communists scream the gont is protecting "Gringos" and these poor people have no land their families are hungry etc. Come old bullshit but helps them recruite more communist.

Sincerely

JH/sv

John Hull

John Hull

Mr
[illegible] Teddy
[illegible] 220
[illegible]ville, Illinois
[illegible]
12560

Dear [illegible]:

I hope things are going well up there. They [illegible] rough here.

The Lelon has gone to 220 so the [illegible] which makes [illegible] petroleum etc. ungodly expensive. Starting out is [illegible] flow.

[illegible] the weather has been bad. We have had [illegible] day season and I've had to haul the oil for the cattle in the [illegible] of Tatums and from there to the farm by boat. Haven't been able [illegible] well my cattle so far because we don't get the trans[illegible] Diego.

To make matters worse I had my first airplane accident the other day. The Cessna 180 had been in the shop here for four [illegible] 1000 hr overhaul. They put all new control cables in [illegible] front of the cabin they got the cables in conduit with the battery cable. I was taking off from a little jungle strip up on the Pinto, border when the left rudder cable burned in two and I got full right rudder just at take off. There was a 12 years old girl in the back seat that had been bitten by snake and the groundloop was violent enough to throw her out and got the left wing, left landing gear, prop etc.

The only old I want to write and tell you my troubles. I [illegible] help in finding a manifold gauge [illegible] can buy. The [illegible] made rules to extend their mail lines and will buy used equipment, trucks, buggies, cars etc; but no [illegible]. I don't know if you [illegible] any mines or private to that would want to sell.

They have heard here that there is one in Texas for sale [illegible] don't know where.

In the past they have bought from Canadian Pacific [illegible] all direct and no chance for an intermediary.

If you can locate the equipment and send price and pictures to [illegible] Mail Commission.

Sincerely,

John Hull

John Hull

BEST AVAILABLE COPY

December, 6 1981

Mr.
Hunter Moody
PO Box 280
Taylorsville,Ill
USA 62568

Dear Hunter:

Still fighting the squatters at Cano Ciego . Really a pain in the neck and matters are worse now there is no airplane gas in the country so will have to take the police in by jeep boat and foot next week.

I'm going to have to do something different at that farm or we are going to lose what we have invested.

When its gets dry enough I'm going to get all the ca out and sell them and use the money to finish clearing and fencin the land. Later perhaps I can rent it for cattle or something bu if it is fenced we have protection against squatters as it is a two year offence to cut a fence.

Recently I talked to Roland Goherihg from Florida about the posibility of buying your and Douglas intrest. Didn know if he contacted you or not.

Also talked to Dean to see if you could get anothe offer.

The colony made a little recovery but is now back to 40 to 1 and that puts land prices back to the same as we pa in dollars 10 years ago.

Sincerely
John Hull
John Hull

Quesada 9 abril, 1983

Mr.
Hunter Moody
PO Box 280
Taylorsville, Illinois
62568
USA

Dear Hunter:

Will write a note and you can pass it on to Doug. Things are rather rough down here on your South 40.

I've decided you are right that light industry is better than ranching and I'm putting in machines to make wooden sales for shoes. The problem is the same as you have. There is always a cash shortage.

The squatter problem here has just about put me up the wall. They tell me the squatters are getting financed by the Bank of Nicaragua and it seems the communists are willing to spend more to get the US investors out of here, than the invenstors want to spend to protect their property and I'm caught in the middle.

I've carried a pretty big crew at Cano Ciego because of squatters but we do have a lot of pasture cleared, fences etc. The problem is now we need more cattle to eat the extra grass.

We have a pretty good little war going next door and they are killing over 200 per week. Which isn't much as wars go but beats no war at all. I imagine the war along the Hondurean border is a diversion and you will soon see a heavy strike on the southern border. If we are lucky and they topple the commies in Nicaragua we will probably have a few years of peace. If they lose our investment is down the drain Russia will then have all of Central America and Mexico and there will be no place left to hide.

. Sincerely

John Hull

December 5, 1983

Dear Everett,

I received the letter saying that John Hood thought I had sold their cattle and rented the land. Don't know where they got all this misinformation, but assume it was through their friends in Florida by way of Silvia Vega and her family, so thought I had better write and go over all the things that the Hoods went over while here.

I thought we had a good deal worked out on the farm for all of you. The cash rent was low, but they agreed to clear and put into production a large chunk of the farm where Robin had sold the timber. To fence this newly cleared part etc., Virgilia had mortaged their own cattle and the bank had loaned them two million colones to buy your cattle and they agreed to have a bank appraiser put a value on the cattle or buy them at the price I had them on inventory, whichever was higher.

The Hoods didn't want to listen to the proposition, but seemed anxious to prove that someone had somehow done something wrong. This seemed to be a big change in attitude from the conversation that I had had with him a few months before by telephone during which he seemed very receptive to the idea of Virgilia's renting the farm.

You have been in constant contact with the situation. You know when we took over the farm, it was grown up in brush, the fences were on the ground, the place was in one Hell of a mess. You also know it is now clean, fences have been rebuilt and it can carry one hundred more head of cattle.

I don't know if the Hoods' reaction is jealousy for what we have done in one year, or if it is due to the fact that you people sent money for taxes that were never paid. Timber was sold and the money came in, but was not used for the farm. The carrying capacity was going down instead of up, while Robin was administrator.

I need to know how you sent the water bed down, because I didn't get it. The rifle scope was left by someone, but no water bed and the poor paralyzed woman that I was going to give it to is in one Hell of a shape with bedsores. Hood owes me $381.00 and he said he would give that money to you so you will be okay wheather the mattress shows up or not. For the woman's sake I'll try to track it down if possible. In our efforts to help people, you and I both bring a lot of problems to our own door. I spent $250.00 of my money for a water bed for this woman a few years ago and it is now rotten. I'm putting up my own money again so she might be a little more comfortable. She is someone I don't even know.

Since Hood has hired Silvia's brother to manage the farm, I'll start there. Silvia's father, Danilo Vega, was the head of the local electric power cooperative and was fired from the job. Later, he worked in Honduras and I understand that he was fired there.

More recently, he is working at an agricultural high school about 15 miles north of here. Not long ago the students there went on strike to try to get him fired. They were unable to succeed due to the fact that Danilo has a contract that has not run out. The fellow at Hacienda Amigos says that Danilo's most recent caper was to go to the farm and tell them that he would give them a nice tip if they would tell the Hoods that I stole the motor off your boat. This man is the father of your new farm manager and I think you and Doc had better sell your part to Hood.

Three months ago I wrote you and Hood that I quit running the farm. I'm glad to be out from under the obligation, but the Vega family's lies did piss me off a bit.

In April I learned that Silvia had done some things that I didn't think were right and as little things soon turn into big things I decided to fire her. Virgilia and Margaret talked me into waiting until she had her baby as she couldn't get another job while pregnant and I went along with that. It was an expensive wait on my part.

For some time I could have legally sold Hood's farm and cattle, but I've never stolen a penny from that farm either time that I was administrating it, but I want to bring up the things that Hood brought up to clarify everything to everyone.

The correct thing for Hood to have done was come down and go to the farm with me, inventory the work, the cattle and the tools. To pay his past due debts and take over the farm and there would have been no hard feelings. Any doubts of his could have been resolved on the spot.

Instead, he still hasn't settled with Virgilia on what he owes them for the amount of their money spent on his farm and I look for that to go into litigation as Virgilia hates Ronald Vega with a passion.

Mrs. Hood's opener was to tell me that there is no road tax in Costa Rica. I tried to explain that there was always a small road tax on your farm, but now they were building a new road and assesed all the land owners in the area. I thought yours was too high as the registry thought you had more acres than you have. When I finished what I thought was a clear polite explanation of the problem, Mrs. Hood looked at me and said, "I know there is no road tax in Costa Rica." I hadn't been called a liar by a sweet little old lady before, so I asked them to go to the Municipality and chck. They did and do you know what they found? There is a road tax in Costa Rica. Mrs. Hood said the next day that the fellow that told her there wasn't such a tax might have been mistaken.

Mrs. Hood made a big deal out of why you had the farm surveyed and why did it cost so much. I tried to explain, but just got the feeling she doesn't value your ideas much more than mine. Hood said the peons at the farm told him that yours and Robin's boat

was not at the farm and hadn't been for some time which was strange because, it was on the inventory when I turned things over to Virgilia last month. I checked on the deal and a fellow at the farm said he told Hoods' interpreter that the boat was on the other side of the river, so the Hoods' interpreter might have been mistaken, too.

Hood brought up the fact that the bulls on your farm had come from here and that is right. I asked him to check his records to see at what a low cost he had been able to buy them. I sold you bulls from my farm at meat prices to try to help your operation. You all have monthly reports on what was spent plus the cattle inventory each 30 days. The next thing was the trade I made trading heifer calves for bull calves. I had an appraiser put a price on both lots. The number he came up with was twenty one heifers and weight and meat prices. If John had sent the money as promised this problem would have been avoided. You owed me money and the farm needed more cattle not less. I should have just sold your bull calves to settle the account, but thought with more heifers in the future you could produce more animals as it was clear that John didn't intend to buy more cows. Everett, I want to tell you the same thing I told the Hoods. I've never done anything other than exactly what I said I would do. If we go back to the deal on the St. Cecilia farm, John Hood and Eliezar Solis promised to put in tractors and money to develop that farm. I went with my tractors and crew from here, built one airstrip and about five miles of road and worked like Hell for about three weeks before it soaked in that my partners weren't doing wat they promised to do. I got John out of the deal at a profit and I got out at a loss...

On this farm, Hacienda Amigas, you were there when Hood agreed to send $500.00 per month and that I wouldn't have to put my money into his operation and I agreed to upgrade the cow herd, clear the pastures and fix the fence. I kept my end of the bargain, John Hood didn't...

You and Acosta tried to track down the outboard motors, so you know there is no question that I stole them. I found your power saws and recovered them. I showed Hood where ther are eighty acres that we have cleared on the East side of the river that he didn't know belonged to the farm.

You remember when you came down to ask my advice on Robin's buying the Aztec? I told you that Robin didn't have the training or mental discipline to get on that fast a track. That Hood's buying Robin that airplane would be the same as me buying little Johnny a loaded pistol.. My warning to you was that in six months Robin would be dead or in jail. John ignored my advice and the results were tragic.

In the three and one half years with the MAF I saw the same

story repeated many times. A green inexperienced pilot often a weak son trying to imitate a strong parent, flying with an ambicious leader would get pushed into combat where the odds against him were too great. When the boy got shot down everyone talked about what a great patriot he was. The squadron leader got another replacement. Some desk bound bastard got a comendation for personal bravery, etc.

That is the same story we had with Robin. His father's pride and money plus the local DEA's ambition put Robin into a situation of no return. The local DEA thought they had a great secret operation going on but, they probably don't spend much time at the Park Hotel or talk to any of Robin's girlfriends. I know what was going on and what was inevitable. I didn't agree with Robin's life style, but I did like the boy and while we now sing his praises his death was inexcusable.

The rumor that I heard from the girls was that Robin and the local DEA officer were more interested in making money for themselves through contraband than any law enforcement activity. I never believe rumors here and it is very difficult to defend oneself against unscrupulous liars, however I never heard of any busts while Robin and our local DEA man were involved and the fact is, the airplane was running back and forth to Miami.

Hood has again turned his backside to me and I'm afraid the results will be sad, but truly hope I'm one hundred percent wrong.

Sincerely,

John Hull

DATE SENT: January 5,1984

MONTHLY REPORT -October, November, December

Farm Name Cano Ciego

Owners Name Hunter Moody, Douglas Siple

The first of the month you had ~~$847,407.15 IN THE~~ REI

Money advanced to workers ~~$4,000.00~~

During the month we spent ~~$53,910.00~~

(Wages, taxes, med. Insurance, fences, fuel, medicines, management)

Money advanced to workers for next month $500.00

We sold

Cattle ~~N.A.~~ ~~N.A.~~

Remittances ~~N.A.~~ ~~N.A.~~

The BALANCE now ~~$904,8 7.15 IN THE~~ RE

Next months expenses will approximately N.A.

Cattle Inventory 210 head

REMARKS ~~N.A.~~

Please keep ninty days cash in your accountant

MAY 0 4 1987

March 11, 1987.

Dear Mr: Schlesinger:

Today I received your most interesting letter and want to thank you very much.

Here in the jungles of Costa Rica we never - get such impressive correspondence and it has been a lot of fun for the troops and I to try to figure out all the little letters after your names. Yours was easy we came up with Costa (C) Rica (R) Quick (Q) correspondence (c) all the other LL,L^{S} BCA LLB B - CCMM we were never able to figure out. I explained to the - - - natives this is a common custom with the Bristish- During WW II, I flew out of Duval for the RAF. I noticed that they always put my name as John Hull D.F.C.

I was very proud thinkng this meant - - - Distinguished Flying Cross, until some time later I was informed it meant Dumb fucking captain.

Another interesting thing about your letter is that you are avocats as well as Borristers.

We had heard of cool cats, polecats, alley - cats and fat cats but never an Avocat.

I have an Oxford University dictionary 1964 Edition but the only thing we could find was "avocation" which - means distraction or minor occupation.

Those of us here that risk our lives to stop communism and protect democracy world so that all you cats can - live well from the misery of the masses, know we are insane. It was very depressing however to read your letter which clearly -- indicates my old and dear friend Douglas Siple has gone over the edge.

I guess those things just happen in the best of families. A very close friend of Doug and mine confided in me that when he was young in an insane rage he pushed his wife out the door of a speeding car to try to kill her so he could marry an airlane stewardess. The attempt failed and his wife ended as an invalide the rest of her life. Of course I refused to believe what I was told about a friend, but I'm sure whatever the - - -

circumstances it had to bear heavy in his mind and perhaps that and the thyroid gland trouble he suffered that required early - retirement does account for the poor fellows problem.

Mr. Siple was sent monthly financial - - - statements on the farm at Caño Ciego and of course these are a matter of record and very easy for you to verify.

If Doug had paid anything on the farm and -- airstrip development he would know the airstrip is only 1400 -- feet long. Rather short for the big time operations, and was -- never intended as a commercial venture.

However we did start one commercial venture on the farm that you or Mr. Siple can still get into with a -- very small investment.

On the East end of the airstrip we have a - cementery with only a few lots occupied.

If you will send $100 per lot we will set - aside some space for you. Remember the old saying its best to - get a lot while you are young.

The best part of your letter was the last - where you gave me 15 days to reply. I now use that phrase in all my correspondence. Unfortunately I didn't have the money to send registered mail and have no idea when you will receive this ~~and~~ However I still want to give you 15 days to answer my question. ARE YOU SILLY BUGGERS FOR REAL?

Respectfully.